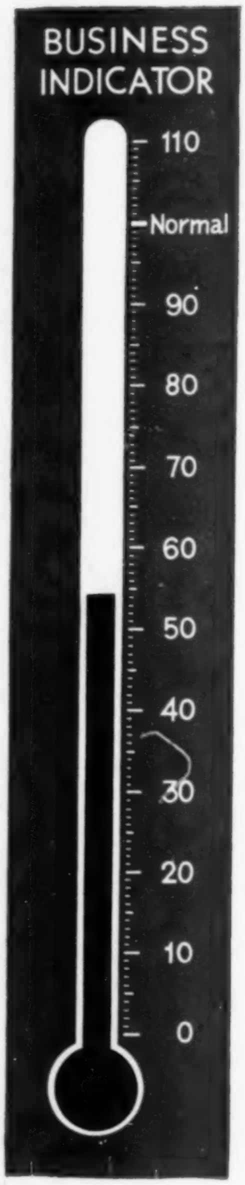
THE BUSINESS WEEK:

JAN 25, 1933



Government construction makes building statistics look good. Carloadings show a modest rebound; so does electric power production. Miscellaneous orders help steel production. . . . These factors cause our index to rise. But not too much importance should be pinned to this; every statistician knows adjustments of many kinds make early January figures notoriously treacherous. . . . News of the week was rather encouraging than otherwise. It is true Congress has publicly acknowledged it will not revise taxes or balance the budget this session, but no one expected it would. Liberalization of the R.F.C. policy, individual tariff negotiations on bases of mutual concessions, an effort to refund farm mortgages (and incidentally to get rid of the Joint Stock Land Banks) seem probabilities early in the new administration. Also sensible legislation to facilitate debt adjustments by majority agreement without the horrors of bankruptcy. . . . Commercial failures show a better trend, and chart dopesters read great significance into that. . . . All this is well enough, but underneath everything is the dull rumble of consumer purchasing power gradually sliding out from beneath the foundations of the business structure. Cracks in the plaster show the strain—as this week in the oil industry, the retail dry goods stores, and the cigar business. . . . Britain on the whole feels better, with the pound stronger and important industries busier. Germany likewise makes progress but begins to worry again about Herr Hitler, the Big Noise. France is suffering from budget jitters. Frightened francs flee the country. Japan still makes war, while a tired and sick world has to bide its time for effective protest and speculators cynically buy stock in powder factories.

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THE BUSINESS WEEK

JANUARY 25, 1933

Another New Deal

President Hoover would make it possible for debtors and creditors to come to agreement without bankruptcy proceedings and without the threat of being held up by contentious minorities.

THE commercial bankrupt may be inelegantly compared with the man who bites off more than he can chew. The report on the causes of commercial bankruptcies published in September by the Department of Commerce tells this story. The study indicates that the major causes of bankruptcy are inefficient management, unwise use and extension of credit, adverse domestic and personal factors, dishonesty and fraud. Incompetence looms large.

All this may be true, and yet during the last few years there have been commercial bankruptcies that are not the consequence of incompetence or fraud. The depression has so weakened the safety factors with which prudent business men ordinarily buttress their enterprises that long-established, well-managed businesses threaten to topple.

If such businesses could be helped through the worst period of the depression, if debt burdens could be reduced, or even temporarily lifted, the businesses could survive with profit to their owners and creditors.

Not only is there no legal way by which a business man can come to a voluntary agreement with his creditors to save the business and the credits, but worse, the process of bankruptcy, under present laws, involves further losses.

President Hoover pointed out to Congress last February that liabilities involved in bankruptcy have increased from $171 millions in 1921 to over $1 billion in 1931, and that the losses to creditors have increased from $144 millions in 1921 to $911 millions in 1931. Losses to creditors have been somewhat lower in 1932, but still stand at a high figure. Dun's insolvency index for 1932 stands at 120, against 133 in 1931, 153 in 1930, and 105 the 5-year average. The President called attention to the fact that the Bankruptcy Act is defective, that it holds out every inducement for waste of assets, and that it permits exploitation and wasteful handling by those who are not truly representative of the creditors or the debtors.

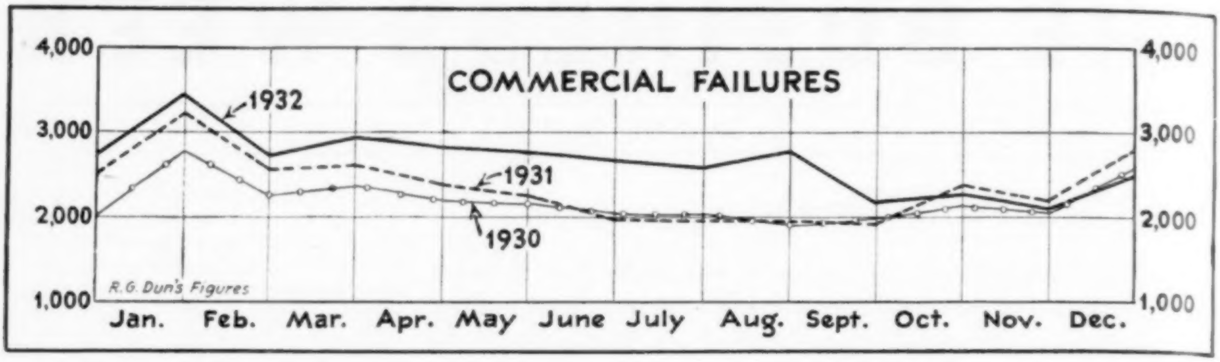
Except in rare cases, bankruptcy proceedings result in the discharge of a debt without sufficient inquiry as to the conduct of the bankrupt or the causes of failure, and discharge from their debts large numbers of business men who might have paid without hardship had they been able to gain a respite.

The President proposed amendments to the Bankruptcy Act to provide proceedings under which debtors may have the protection of the court, without being adjudged bankrupt, for the purpose of reaching an agreement with a majority of the creditors that will enable them to pay out of future earnings. For practical application of the principle, the President recommended that every bankrupt should be examined by a responsible official who should report to a court having discretion in the granting or refusing of discharges.

Congress did not act, and the President now comes back with a piece-meal suggestion. Failing comprehensive action, he recommends some immediate remedies. His present proposal does

Acme

THE BITTER END—These farmers are gathered in Spotsylvania Courthouse, Virginia; they lean against the time-blackened benches, the whitewashed walls, battle-scarred from the Civil War, waiting to see their farms go under the hammer. Black and white stand equal here; they have lost everything. This is the bitter end of deflation.



not depart widely from his original recommendation. It consists in making it legal for a bankrupt to agree with a majority of his creditors on a plan of reorganization of the debt which will not force the debtor into bankruptcy. Minority creditors are to be estopped from blocking such agreements.

Forcing liquidation is destructive to the assets of both creditor and debtor at all times but especially under present conditions. Voluntary reorganization through the extension of individual debts is constructive in a large number of cases. Under the present law, even when a majority of creditors desire to arrange fair adjustments, their plans cannot be consummated without prohibitive delay and expense. Often they are obstructed by the objection of a minority of creditors who holdout, hoping the fear of ruinous liquidation will induce the majority to buy them off. The proposals are not new to the majority of Congress. They have already been suggested in hearings held by committees and the Judiciary.

To be acceptable to Congress, the legislation must provide the same opportunity for the farmers to get out from under as is given railroads and industrialists. This phase of the bill will receive close scrutiny. Only farm support can give it a chance of enactment during the present session. The farmers have special reason to be anxious. The report of the Bureau of Agricultural Economics on Jan. 16 shows that 9½% of the farms in the United States changed hands because of forced sales during the 5 years ended March 1, 1932. Tax sales hit 3½% of farms.

Failures Slacken

Late months of 1932 reversed 3-year trend, which is perhaps more significant than totals for the year.

ORACLES of optimism offer the current reversal in the trend of failures as evidence that the long lane of lament and losses has reached its turning, predict that other signs of returning confidence and improved business conditions will soon appear. Priests of pessimism present the record-breaking totals of 1932 failures and liabilities as proof positive that depression's deepest dip is yet to come. Critical analysis of the 1932 failure figures indicates that the optimists may be right, particularly so since the October-born improvement has continued through the first 2 weeks of the new year, when failures ordinarily reach their peak.

Through the first 9 months of 1932, failures continued the trend which began in December, 1929, of exceeding the previous year's total, both in numbers and in total liabilities. In October, 1932, the total number dropped below that of October, 1931, and the December, 1932, total number dropped below both the 1931 and 1930 figures for that month. For the entire year 1932, R. G. Dun & Co. report the record-breaking total of 31,822 failures with $928 millions of liabilities. Staggering as these figures may appear, a breakdown according to branches of business indicates that in some lines the cumulative effect of the depression reached its full force only during the year 1932, while in others the worst appears to be over. Belonging to this latter group are 3 important branches of industry, which evidently turned the corner.

For instance, failures among machinery and tool manufacturers during 1932 showed a drop of 40% from the 1931 total of liabilities, while the number, although larger than 1931, is still 10% under the all-time failure record established by this group in 1921. The number of failures among woolens, carpets, and knitgoods manufacturers, which in 1931 stood almost 100% above the 1930 figure, showed an increase of only 7 during 1932, while liabilities were 42% less than in 1931. The number of manufacturers of tobacco and tobacco products who failed was slightly higher but liabilities were still 45% below the 1925 all-time record.

Among the wholesalers and retailers, failures as well as the amount of liabilities increased in practically every group. Clothing stores showed the largest increase, dry goods stores ran a close second. The squeeze-out of brokers, agents, and commission men also continued unabated during 1932, the failures in that class establishing a new record while their liabilities accounted for 15% of the grand total, although still slightly below the 1930 record total.

Proponents of the theory that all major business depressions follow a well-defined pattern support an optimistic interpretation of the 1932 failure record. According to them, the totals of number or liabilities are of significance only in their relation to the total number of concerns actually engaged in business. They quote that after the 1873 depression the peak of failures, reached in 1878, was 1.55%, that after the 1893 depression the peak, reached in 1896, was 1.31%, and after 1921 the highest percentage, 1.19% was reached in 1922, but in each instance the year which recorded the peak also showed toward the closing month a well defined trend of decline in numbers. They argue that with 1932 figures showing 1.538%, the highest since 1878, and the last 3 months of the year indicating a turn of trend, the worst of the "depression of the '30's" is past.

Even observers known to be without the least optimistic bias are willing to concede that the turn of the tide of failures may have definite significance. They point out however that without an early and general stiffening of prices and the resulting increase in gross volume and margin, many concerns still must go by the boards.

During the first 2 weeks of 1933, R. G. Dun & Co. reported 1,322 failures for the entire country, as compared with 1,520 for the first two weeks of 1932, a decline of 198, or 13%.

Realty Taxes

Real estate men formulate a national platform on taxation, with an interesting proposal for computing valuation on the basis of productiveness.

TAXES on real property ought to be limited to 1½% of true value; value should be computed on the basis of productiveness; states, not local units, should support schools; gasoline and automobile taxes should be spent on city streets as well as upon highways; special assessments should be restricted; state boards of review should be set up to pass upon tax levies or bond issues when 25 property owners file protest.

These are the planks in a tax platform which the National Association of Real Estate Boards has formulated through its board of directors. Members are being asked now to indorse them.

FILIBUSTER AND FRIEND—Huey Long (right) and Senator Thomas of Oklahoma. The "Kingfish" aims to talk the Glass Banking bill to death, or at least, to delay it so long in the Senate it can't get through the House.

The frank intention is to fight for measures which will lower permanently the proportion of tax which real estate now bears. The real estate men recognize that the total tax bill is not likely to diminish. They do feel taxation should have a broader base; to this end they favor a "federal general sales tax, one half of the revenue to be distributed to the states on the basis of school attendance, on condition that such receipts by the states be used to relieve real property proportionately of school taxes."

The proposal for revision of assessments is interesting. The realty men argue, "In the case of property yielding income, the annual productiveness can be definitely ascertained, and the value can be accurately established by capitalizing this amount at a proper rate from year to year. In the case of homes occupied by owners, the annual rental value can likewise be readily ascertained and capitalized to ascertain taxable values. In the case of vacant urban property, non-productive lands in rural sections and real property of other types, ownership carries with it certain benefits which can be measured in terms of money, and such properties should be taxed upon a value established by capitalizing such benefit of ownership.

"In our income tax laws, we definitely recognize that annual productiveness or income is the fair measure of ability to pay taxes."

Draglines

Aluminum booms and buckets used on dragline excavators.

DESCRIBED as the first major development in dragline excavators since the advent of the diesel motor, 28 such rigs now are using aluminum booms, and most of them aluminum buckets.

Aluminum alloy booms offer 40% to 50% saving in weight for the same length and strength, but the usual practice is to keep the same weight and use it to get 15% to 20% longer reach, or a 20% to 25% bigger bucket. Booms as long as 175 ft. are in use. Considerable savings are reported.

Silk

Manufacturers and labor alike look to regulation of night work as a way out of demoralization.

SILK mills are running day and night, glutting the market, with the familiar results of cut-throat competition, in turn reflected in lower wages. Night operation is estimated to add 30,000 to 40,000 looms to the industry's capacity.

The Silk Association has named a

committee to study the whole question. Some manufacturers favor federal legislation.

Meanwhile, the Pennsylvania millowners have laid their case before Governor Pinchot, to see if action could not be had through factory legislation in that state. The objection to state regulation of hours in the industry is that it would lead to migration of mills in the end, and, more immediately, put mills in other states at a competitive advantage.

Dry Goods Facts

While convention of department store trades proceeds on usual schedule, fact-hungry store executives study sobering statistics on drop in sales, changes in demand.

OFFICIALLY the doings at New York's Pennsylvania Hotel during the week just closed were proclaimed as the twenty-second annual convention of the National Retail Dry Goods Association.

Unofficially the experienced conventionist has come to think of this event as a 6-ring circus. From early morning into the evening some speaker is doing an act in one or the other of the 6 divisions representing important branches of department store activity into which it is split.

Those Were the Days

There was a time when each of the 6, or sometimes even 7, rings could boast a large attendance. Even small-town department store members could afford to send a troop of departmental heads to the meeting. They'd be sure to learn something—and then business was good.

Not so to-day when department stores are all busy with intricate schedules to cut down the trips and traveling expenses of buyers. Of the big stores only the boss and one or two key men attend the show and of the little stores the boss alone. Hence much running around in corridors, men hurrying from one ring to the other, suggesting fewer rings, fewer subjects, fewer speakers, more general meetings, more short and snappy speeches, more lively discussion, more getting down to fundamentals.

Some of the oldtimers, with well-rounded waistlines and well-padded bank accounts, still cherish fondly the old order of things, like lots of rings to the circus. But many of the younger executives think differently, care little for scenery or accompaniment, are hungry for facts and figures.

Much discussion at this year's revolved around the flash report for 1932, just issued by the Controller's Congress of the association, showing that sales of members' department or dry goods stores for 1932 were approximately 22.6% less than in 1931 or 37% below the peak of 1929. The Richmond Federal Reserve area, again, as in 1930 and '31, showed the smallest loss in sales volume (17.8%); the Cleveland district trailed the rest with a 25.7% reduction.

Several significant trends are disclosed. For instance, the 60% of the reporting stores supplying figures on number of transactions during 1932 showed an aggregate decrease of 4.2%; the first since the general price decline started in 1930. Some executives see in this a sure sign that from now on price changes will be upward.

Changing Demand

Alert merchandisers gave special attention to the report on departments that showed major changes in sales volume during the year—evidence, perhaps, of significant changes in trend that can be used to guide policy in the months ahead.

In 5 of the 12 Federal Reserve districts stores reported large increases in the neckwear department. No adequate explanation could be given except that in many cities large numbers of small haberdashers have gone out of business, switching those who desire to buy dependable neckwear to the department store.

Stores in 5 districts reported large increases in sales of toilet goods. Some merchandise managers advanced the theory that, unable to patronize beauty parlors as freely as in boom times, many women are again doing their own shampooing, massaging, manicuring. Singularly, the Cleveland district which reported the largest decrease in total sales volume, also was the only district in which stores reported a marked increase in business of their beauty parlors.

Manufacturers of women's apparel are puzzled over the fact that, while all districts reported marked decreases in sales of women's and misses' dresses and coats, one had substantial increases in women's and misses' suits, while 3 districts actually showed marked increases in the sale of women's sportswear. One theory: many items of sportswear are suited to a wider range of uses, particularly along general utility lines; hence meet an economy demand.

Home Industry Market

Increases in the sale of art goods and needlework, reported by 2 districts, were explained by the fact that many young women who would be employed under normal conditions now stay at home. Some of them are using their needles to produce articles of utility or gift goods. In some cities knitting has again become popular.

Many department store executives are making exhaustive studies of basement merchandising. The broad and drastic decline in prices has wiped out the price advantages formerly enjoyed by basement merchandisers. Some are watching the experiment of Gimbel Brothers with a 100% cash-and-carry basement. They argue that that plan offers the final solution to the problem, that the basement, after all, is to the department store what the lunch counter or cafeteria is to the first-class hotel. Services and fancy trimmings can be abandoned to give patrons the benefit of the lowest possible prices consistent with accepted standards of quality.

The "Q" Campaign

Retailers have good reasons and strong support for their effort to swing buying interest from price to quality. But conversion may need a miracle.

REVIVAL of demand for quality merchandise, weakened by recent overemphasis on low-priced "sales" of "bargains," was recognized at New York's convention of the National Retail Dry Goods Association as a vital need for retailers. P. A. O'Connell, head of E. T. Slattery, Boston, as the association's president has led the fight against cheap goods. He has hammered at the evil in speeches; association members have helped by advertising the "Q," standing for quality, assuring purchasers of honest values.

Merchants from all over the country reported that the campaign was taking hold, though results could not be measured in dollars and cents. All admitted that they are wrestling with a tough customer. Every nickel must do extra duty these days. Price still has a tremendous pull. When a store slashes prices, waxes hysterical in its advertising on value claims, every competitor is put on the spot, is tempted to follow suit.

Quality exponents have one very powerful argument. Average sales have

Central News

ABOARD THE "FLYING HAMBURGER"—Nobody seems uneasy as Germany's crack new motor-train hurtles to Berlin at a flat 90 miles an hour, 146 kilometers on the speedometer at the end of the car. The whole train is streamlined.

been falling. Operation costs cannot be reduced enough to create profits. Department stores especially are caught between the millstones of high overhead and inadequate mark-ups. They've got to trade up. The "Q" movement will help raise the value of average sales—if it moves.

Creeds for Buyers

Recently the crusaders have been encouraged by a powerful ally. Women, both personally and through their organizations, are getting riled up about substandard merchandise. Some of them have quit asking "How cheap is it?" now ask "Is it worth the money?" Important is the resentment of the General Federation of Women's Clubs. Supporting it are 15,000 organizations. The federation has adopted a creed for buyers which pledges avoidance of sweatshop and prison-made goods, which emphasizes the fact that cheapness alone doesn't make a bargain, that suitability and durability must be considered. Speakers of the organization attended the opening of Sears, Roebuck's Clinic of Household Science in Chicago. They praised its educational features, called upon the women of the country to use more intelligence in their buying.

The federation's midwinter directors' meeting was addressed by Mrs. John F. Sippel, former president of the organization, now head of the National Standards Council of Washington. Her message was to "2 million clubwomen homemakers of America, the country's largest group of consumer buyers." She pleaded for establishment of real standards for consumer merchandise, explained efforts of the council in that direction. The need is for some "all-covering label of specification."

The National Standards Council offers such a label. It is available to all manufacturers whose merchandise agrees with standards determined by the industry itself, acceptable to the council. (The device is now used on brooms and is said to have greatly increased sales over products not so branded.) "If you women," said Mrs. Sippel, "want standard merchandise and certification by labels which you can readily identify and believe in, you can have them." Mrs. Grace Morrison Poole, now head of the General Federation, presided at the meeting and beamed approval.

The Quality League of America, headquarters Chicago, also has entered the field. It is independent of the above organizations but has the blessing of the Dry Goods Association. Some "200 nationally known manufacturers," many trade organizations, various magazines and newspapers "have endorsed the Quality Crusade and are giving its activities their cooperation." The league's slogan says "It's thrifty to buy quality." It is offering a series of ads to newspapers in leading cities.

Testing the Quality

Another direction taken by the quality movement is the retail "testing laboratory." Macy's has one which has been widely advertised. Gimbel's, Philadelphia, recently opened a "Bureau of Standards." It seeks especially to detect frauds in weaves and dyes of fabrics.

Taking them all together, here is a drive that can't be ignored. Operation of the different plans raises questions. Among them: (1) How are you going to prevent a retailer who has shown himself ready to push inferior merchandise from applying quality marks to undeserving goods? (2) Will the realization of sin prevent sales-hungry stores from continuing the proven effectiveness of desperate price-cuts?

Cotton Goods

Year-end stocks the lowest on record despite 2.7 billion yards produced; December sales reached 109.9% of production.

COTTON cloth manufacturers still grumble about prices, still have their troubles, but in general feel they have a right to be encouraged over progress made in 1932.

The year ended on a cheerful note when December, usually a bad month, developed sales which were 109.9% of production. Stocks increased some 7%, but unfilled orders increased 12.9%.

Sales for the 12 months were 104.8% of production; stocks were reduced 26.1% to the lowest year-end supply on record. Some idea of the size of the industry can be read in the figures for the year's production—2.7 billion yards.

Packaging

Transparent cellulose goes down again as continued growth brings economies of mass production.

USE of transparent wrapping is spreading fast in the food industries, particularly among bakers of bread. One baker who recently adopted this form of packaging his loaves is using 5,000 lb. a week.

Since it began the manufacture of Cellophane in 1924, the duPont organization has followed a policy of re-

ducing prices as fast as growing volume made it possible. The fifteenth price cut on Cellophane was announced last week; moisture-proof, 10% cut to 58¢ per lb.; ordinary Cellophane, 5% cut to 40¢. Sylphwrap was cut similarly.

Retailing Trends

New merchandise, free goods, credit clinics, college-and-counter training courses help to keep these from being dull days for store executives.

CLOTHING retailers who find that the public is no longer rising to the lure of bargains are making drastic changes in fishing tackle—or trying to. Most promising bait at the moment seems to be "something new," anything that opens a definite break with too-familiar goods and styles and can be sold on some stronger appeal than is exerted by price alone.

This explains the ardor with which several department stores and the Knox Hat Co. took up the famous—and very different—"Camel Hat," introduced to the public everywhere in an R. J. Reynolds advertisement and quickly snatched from the tobacco company's comely model by the speculative store buyers.

It also explains the "sensational" agreement of about 50 department store and group organization buyers to get behind a movement to persuade boys that double-breasted suits will be indispensable this spring and summer. Boys of a certain age are painfully style-conscious. Perhaps, reason the retailers, advantage can be taken of this to overcome the fact that their parents are painfully price-conscious.

Clothing men report that retailer stocks are so low that such a shift in styles will cause no hardship in the stores. Manufacturers who have gone ahead with the production of single-breasted togs on the theory that wrap-around coats would continue to play the small part in the boys' world that they have in the past are not so cheerful.

CRITICS of drug trade merchandising have long railed against the practice of offering the druggist an allotment of "free goods" with quantity orders. Purpose was to stimulate the quantity orders (originally to introduce new products); frequent result was to stimulate price-warring among competing retailers, introduce discord into the manufacturer's and wholesaler's trade relations. Free goods brought down the cost of the total order for druggists who could afford to make the total big enough. Some druggists, aiming at their competition, handled them as if they really were free.

All this makes important the decision of the Mennen Co., toilet goods manufacturer, to withdraw its offer of "a dozen free with each order for 12 dozen." This company asserts that the original introductory character of the free goods proposition has been forgotten, that the economics of the free deal have been misunderstood and abused by retailers, that straight quantity discounts are better and safer sales stimulators.

CLEVELAND retailers are now helping hapless householders through a debtors' clinic similar to that set up in Memphis last fall (*BW—Oct12'32*). The Cleveland Retail Merchants Board is in charge. Where a family that is debtor to several stores can be persuaded to cooperate, the clinic will draw up a budget based on total obligations, income and living expenses, and arrange for monthly payments to be pro-rated among the creditors according to the relative weight of their claims. Debtors are relieved of dunning letters and calls and threatened or actual wage garnishments—which may not set so well with employers. Creditors hope that a little organization and leniency will cut down the annual loss from bad debts and expensive litigation.

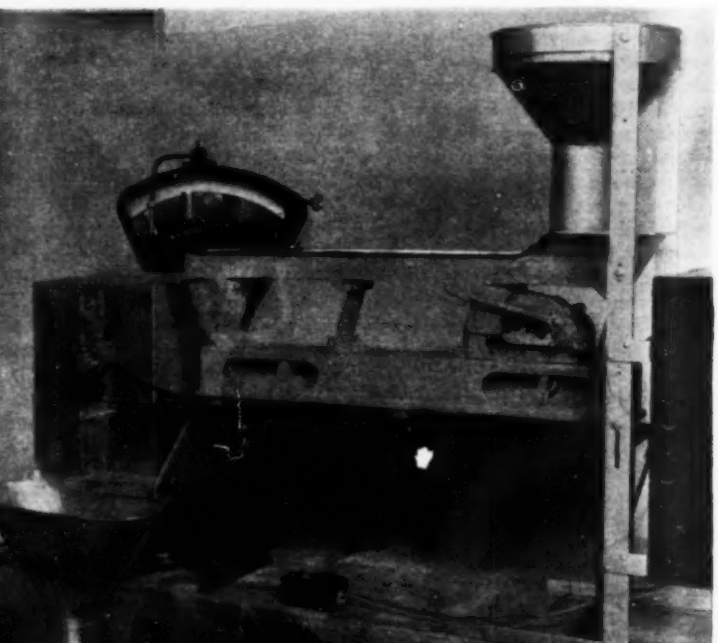
THE training of department store executives takes a new turn with the announcement that Columbia University's School of Business and B. Altman & Co. of Fifth Avenue are to cooperate in a graduate course for would-be junior retailing executives whereby the student is shuttled between desk and counter. Under this plan, college graduates who can get by both Paul H. Nystrom, Columbia professor of marketing, and Altman's examiners will absorb lectures on retailing early and late in the day and work at it in the Fifth Avenue store from 11:30 to 4:30, except on Saturday, when they will be business men all day. Altman will pay for the work, the students will pay for the lectures. Object—full-time employment on the completion of the course, which Altman promises to "a number of the graduates whose records of education and achievement are satisfactory."

Prof. Nystrom is in charge of the arrangement, which goes into effect at the start of the spring session of the School of Business, Feb. 8. To him, as to others, this looks like "the beginning of something that should have far-reaching effects in the retail field."

Piracy

Contract and agreement the newest weapons against the ubiquitous design thief.

PATENT law is all very well, and the new bill pending in Congress (*BW—Jan4'33*) offers better protection to textile designers than any measure previ-



The Business Week

SHIMMY SCALE—This is the Toledo vibrator filling machine. It automatically weighs out predetermined amounts of dry materials in packaging or blending operations. The vibrator shakes the cereal or prunes onto the scale; an electric eye cut-off stops the flow when the required quantity is reached.

ously proposed, but the law is too slow for some styles and too expensive for others.

Manufacturers and retailers of women's dresses therefore are organizing guilds in the leading cities of the United States to stop the pirating of models. In the cotton goods branch of the textile industry a cooperative association is being organized with the same objects, and working in much the same way.

The Fashion Originators' Guild, with branches in New York, Chicago, Philadelphia, San Francisco, and other cities, pledges its manufacturing members to copy no dresses and its retail distributors who join to sell no copied styles. The manufacturers will sell to none but members, the retailers will buy from none but members. Penalty of pirating is expulsion, which carries with it loss of all customers in the guilds. There is a tie-up, too, with cloth manufacturers, who are under similar pledge and similar penalty.

The cotton goods manufacturers' plan is to enforce their rules by contract. In every sales contract will be a stipulation binding the buyer not to copy or cause to be copied the pattern of the goods bought. It is believed these contracts can be enforced in court if necessary. The "Cooperative Association Against Piracy of Design in Articles of Commerce," which is its snappy title, hopes to get 1,000 members at $100 to $200 a year each, set up its own registration bureau and an advisory bureau. Large firms, it is pointed out, cannot afford to patent or officially register all of their thousands of designs. The small man cannot afford to fight court cases alone; that should be an association job.

The shirting manufacturers and the textile converters are solidly behind the plan. Other divisions show interest.

Cigars

A classic ten-center becomes a nickel cigar, which may be the first puff of general warfare. Volume declines whatever the boys do.

A CLOUD hanging over the horizon of the cigar industry is believed by worried executives to be the opening puff of a price war. Cigar sales, in a decline before the depression, have receded more sharply since. Reductions were made gradually by leading brands. The competition discovered a new worry recently when Bayuk Cigars, Inc., big Philadelphia manufacturers, with a single grim hard stroke cut 50% off the retail price of their 10¢ "Bayuk Phillies."

Much of the slice came out of the retailer's percentage. The store formerly paid 7½¢ for a cigar selling at 10¢; now it pays 4¢ for a cigar selling at 5¢. But the retailer is soothed by the forecast that increased volume will more than make up the difference. Early returns bear out the predictions. Demand for "Bayuk Phillies" at the new 5¢ price is said to be better than strong. The move has proved a collection stimulant, retailers behind in bill payments having hurried to wipe out debts for fear of being questioned on new orders. A national newspaper advertising campaign starts Jan. 24.

Free-for-all Due

Rival brands are not going to accept this newcomer without fighting back. Counter moves are expected in the next few weeks. By summer it may become a free-for-all. Says one tobacco authority: "More cuts are inevitable. It may appear in retail price slashes or in special discounts to jobbers and retailers. Not that it will do any good. Cigar sales still are going down. I doubt if cuts made so far have added anything to totals of the industry."

Smokers are told that quality of "Bayuk Phillies" will be maintained at the new price. They formerly were known as Philadelphia Hand-Made. Savings from machine operations and decline in tobacco costs are asserted to justify the reduction. Other brands that recently cut to 5¢ have before this increased or reduced prices when conditions demanded. But "Bayuk Phillies" enters the nickel field as an established 10-center.

From their gilded boxes, those classics of the low-price field—Cremo and White Owl—glare resentfully at this new rival. White Owl is General Cigar's leader. Formerly it was a 10-center. White Owls were reduced first to 2-for-15¢, then to an unequivocal 5¢ each. Cremo, American Tobacco's great 5¢ seller, was cut to 3-for-10¢, remaining however "5¢ each." Other brands have crowded down into the low-price market. Among them are many popular in local areas, and these must be reckoned with.

Conditions have revived the stogy, which languished during the Golden Age. Webster's classifies the stogy as an inexpensive, "though not necessarily inferior," cigar. Pittsburgh's name is sentimentally linked with this slender plebeian, because leading makers formerly (and still) manufactured there. Now there are factories all over. The old line brands are back at 2-for-5, sometimes 3-for-5. One New York company recently advertised and marketed a 1¢ stogy—a painful comment on what has happened to tobacco prices. A special class of manufacturers woos the Italian-American market, broadcasting 3-for-5's that can be "chewed or smoked."

The Lowly Stogy

Makers of the comparatively snooty 5-centers scoff at the suggestion that stogies are cutting into their markets. You are assured that stogy smokers and cigar smokers are different breeds of cats. The cigar smoker will, if he has to, switch to pipe or cigarettes, but never to a stogy.

Cigar matters have come to the point where the industry believes it had better take a careful look at itself. The Associated Cigar Manufacturers & Leaf Tobacco Dealers, New York, are busy on a survey of conditions and prospects. Some of the things they will find are available to enquirers through government figures. In 1927 the country's average monthly smokings of cigars was 547,615,000, in 1929 it was 545,974,000, by 1931 the figure had declined to 443,241,000, and the average from July to November last year was 404,741,000. Wholesale price average per 1,000 fell from $52.84 in 1927 to $49.76 in 1931. Cigarettes have been hit, but they have held better than that.

Strong-arm advertising and selling of cigarettes account for some of the slip in cigars. But the trend is so stubborn that it probably indicates a change in national habits.

"Part Wool"

Blanket manufacturers will be more definite about wool content; labels will show what part.

BLANKET manufacturers began Jan. 1 complying with a new code of conduct, but the rules as they affect retailers have been postponed until Apr. 1 to give them further time to clear old stocks.

After Apr. 1, a blanket must contain at least 5% wool to be labeled "part wool." From 5% to 25% content will be labeled "part wool, not less than 5%," all in the same size type; from 25% to 98% will be labeled with the exact percentage of wool; 98% up will wear the "all wool" label.

Some retailers say they will drop "part wool" blankets. They contend the public always has believed "part wool" meant a great deal more than 5%. At least one important manufacturer (Esmond Mills) will call its part-wool blankets "Warmspun" and not use the word wool at all.

Oil Control

Prorationing, weakened by dropping demand, obvious evasion, and legislative uncertainty, is losing some friends. But enough producers are convinced that even imperfect control is better than a free-for-all to work for better enforcement and better prices.

THE great petroleum industry again faces a crisis. Production control, bootstrap by which the industry has twice pulled itself out of a hole, is tearing. This time, it is not so easy for the industry to do something about it.

Prorationing of crude production is about 10% regulation and 90% voluntary cooperation. This cooperation has been weakened, of late, by forces beyond the industry's control, which are working both ends against the middle.

Consumption Decline

Foremost is the now obvious decline in consumption. Measured in taxed gallonage, it dropped about 4% in the first half of 1932. Measured in automobile registrations, there were almost 6% fewer cars to burn up motor fuels in 1932 than in 1931. And 1931 dropped 2.8% from the 1930 level, the first time in the history of the twin industries that the trend reversed itself. In round numbers, there were over 2¼ million fewer cars on the road when the bells rang out at the end of 1932, a total decline from the 1930 peak (26,545,281 cars and trucks) of 8.5%.

What's more, these gallonage figures are only for the first half of last year. Every oil man now knows that consumption from July to December fell far below that for the first half. Estimates of the decline for the year as a whole run over 10%.

It is declining consumption, by weakening pump prices in a land of too many filling stations, which eventually worked back to the wells, softening crude prices, and thus removing the incentive for the cooperation which made proration possible.

Worked Both Ways

The principle, it seems, worked both ways: tightened production brought higher crude and steadier pump prices; but weakened pump prices reacted on crude prices.

Also working against prorationing is the difficulty of enforcing quotas. It is hard to cooperate when others are evading the orders, legally or directly, piling up a secret surplus of production which defeats the purpose. Flouted by bootleggers, blocked by court injunctions all too easily obtained, poor prorationing has had a hard time. Now, some of its best friends are telling it what they think of it.

They say it has been tried and found wanting, that no control at all would be better than the present uncertainty. They believe that wide-open production would soon kill off the weaklings, leaving the strong to get together with some chance of staying together.

Prophet of this school of thought is Harry Sinclair, loud and vigorous head of Consolidated Oil. Against the principle from the beginning, he nevertheless gave it his support, went so far, last fall, as to lead an increase in crude prices as a reward for reduced production. His effort did not work, and he was later forced to follow a general decline "reluctantly."

No Reward for Virtue

His feelings, therefore, are understandable when he says, "Proration no more effectively restricts than prohibition prohibits." He goes on to remark that "it creates the same army of bootleggers, the same evasions and the same administrative evils. . . We have restriction of a kind, but no reward for it."

He thinks that the old-fashioned, "obviously sound principle that the raw material price must determine the finished product price has been abandoned. . . [in favor of] an artificially-maintained level . . . not in accordance with present-day values and conditions."

His is the ruthless, devil-take-the-hindmost philosophy of the complete realist. There are plenty of other oil men, now, who also believe that the attempt to control artificially has resulted in fictitious potentials for many fields which are no longer what they were. They say, "Take off the lid, let prices drop, let the flush fields show up their condition. Then, after the wild East Texas and Oklahoma City fields have blown off their gas, let them pay for pumping like the rest and see how much price-cutting they can afford."

It is sad, also, to realize that the unscrupulous operators with nothing to lose, who violate proration orders cheerfully, are the very ones who stand to gain most by the scheme. They may have done nothing to develop the business, yet they get the same share under proration as do established companies.

Altogether, the anti-prorationists think they have a good case; moreover, they think this would be a good time to get rid of the whole business, what with gasoline prices flat on the bottom anyway and the dull season just ahead.

Proponents of prorationing are still plentiful and powerful, however, and they won't give in without a battle. Admittedly imperfect, even half proration is better than none, they think. The principle is good, it has been sustained in the courts (much to the envy of other industries with less of a stake in natural resources), all that has to be done is to make it work.

And that's just a matter of education and legislation. Education of the recalcitrant oil men that it's all for their own good; education of federal court judges, some of whom are more interested in archaic principles than modern necessities. And good evasion-proof legislation to keep the burglars in line.

The prorationists continue to say that the wild fields would be months rather than weeks blowing off, which would put out of the market all the settled fields. That the best people in the oil business are in favor of prorationing. That steps are already being taken in Texas and Oklahoma to tighten up the laws. That some sort of control is important to prevent chaos in the fields and actual waste of a national necessity.

Meanwhile, though courts may battle and legislators haggle, gasoline prices continue to drop. More cuts have come in recent weeks than in many months. And prorationists may well say that with demand so definitely outlined, it would be folly to let loose production.

Gas Tax

States act to encourage winter driving (and tax-paying) by extending registration dates.

STATE gasoline taxes produced $246,647,059 net revenue in the first 6 months of 1932, according to the U. S. Bureau of Public Roads. This is $1,900,206 more than the collections for the same period of the previous year. Which increase is registered despite a decline in gallonage of 3.9% from 7,133,744,870 in the first half of 1931 to 6,856,692,885 in the same period of 1932.

Thus so definitely in the gasoline business, the several states are considered concerned about the future supply of golden eggs and the three factors which now work against tax totals.

First of these is the continuing slump in gasoline consumption, which will be much larger in the figures for the second half of '32 and in the first half of '33.

Second, is the slump in pump prices which this has brought about, and the consequent tax-consciousness of the paying public. For a 5¢ tax is a 50% tax when gas gets down to a dime a gallon, as it has. Thus, attempts to offset declining gallonage with rising tax rates will not go unnoticed.

International News

ONE KIND OF PRORATION—What one storm did to the oil derricks in the Huntington field on the California coast. A lot more well-heads would have to be wrecked, however, before this sad but effective method of reducing production could have any effect on prices, the way things are.

Third, is that old bugaboo of the gas tax, the point of diminishing returns, beyond which it becomes so profitable to bootleg, substitute, and dilute that collections fall off.

As silent partners, the states are much more willing to listen to the oil companies' proposals to keep more cars on the road by delaying registration. This year, many motor vehicle commissioners, plainly told that enforcement of license limitations would put many a car in cold storage for the rest of the winter, have extended grace periods and otherwise made things a little easier.

Arizona has a partial payment plan. Impecunious sons of the mesas buy each month a sticker which is plastered on the old license plate. When enough money has accumulated to pay for them, the state issues new plates.

In Alabama, the expiration date has been changed to Oct. 1, when planters have cashed their crop checks.

Virginia has moved the payment day from Jan. 1 to Apr. 1, thus keeping cars on the road during the winter months which otherwise might hibernate until spring, coming out to buy a three-quarter year registration.

In the Midwest, no formal extension is expected in Illinois, Iowa, or Kansas, but members of farmers' defense committees will probably continue to travel to their foreclosure rendezvous with last year's plates, and what about it? Chicago, of course, is notoriously lenient, as many a New York cop has heard on New Year's morning.

This year even hard-bitten New York relented and motorists were given a couple of weeks' grace. Commercial car owners have until Mar. 1.

Kentucky and Texas, with true Southern courtesy, will not start enforcement until Mar. 1. Missouri and Oklahoma will go easy until Mar. 15. Meanwhile, legislatures meeting this month will be asked to make an honest date out of it.

Michigan tried extending the deadline last year, and was rewarded with noticeably larger gas tax receipts in January and February.

Other state legislatures, Maryland, Massachusetts, Ohio, Pennsylvania, and Rhode Island among them, will be asked to postpone permanently license expiration dates to encourage winter driving and gasoline consumption.

Naphtha Tax

Imported under a ½¢ rate, naphtha was responsible for many gasoline price cuts. Now motor fuel, it must take the 2½¢ tax.

WHEN the import taxes went on petroleum products last June, naphtha got off very lightly with a mere ½¢ a gallon. At this low rate, it was able to enter the country and compete with honest native gasoline, to the great detriment of the price structure in certain cities, notably Detroit (*BW—Sep14'32*), where it masqueraded as "imported motor fuel."

Gasoline retailers howled in protest (*BW—Sep21'32*) asked that it carry the same impost as gasoline (2½¢ a gallon), presented much evidence before the Commissioner of Customs to show its real use. Commissioner Frank Xavier A. Eble, however, refused to classify it as motor fuel and it continued to come in at the low rate.

Under pressure of more evidence, the good commissioner has reversed his ruling. After Jan. 21, it comes in under the 2½¢ tax. "Technical naphtha," imported for other than motor fuel use, still takes the old ½¢ rate, but the burden of proof of such use rests with the importer.

Short Waves

RCA proposes to send facsimile messages to compete with telegraph if it can get channels between 7½ and 10 meters.

DEVELOPMENTS are moving forward rapidly in the ultra-short wave bands with which radio experimenters have been working hard for the past few years.

So much progress has now been made that Radio Corporation of America is ready to enter the domestic communications field in competition with the telegraph and telephone companies if the Radio Commission will assign it channels between 7½ and 10 meters, which is to say 40,000 to 30,000 kilocycles. Recent application filed with the commission stated that the corporation would abandon its long-disputed applications for channels between 1,500 and 6,000 kilocycles (200 and 50 meters) if it can have the higher frequencies.

It has long been obvious that every time the wave length is halved the number of available channels is doubled. Thus in the micro-wave bands, there are unlimited channels. This is mere mathematics; 300,000 meters, the speed of radio communication and of light waves, is wave length in meters multiplied by kilocycles. But it is only recently that radio engineers have learned to harness these waves.

RCA proposes, if its application for new channels is granted, to set up a service which will transmit facsimile messages from point to point throughout the country, thus competing with the telegraph systems for ordinary communication, and with the telephone companies which now give a limited facsimile service between certain large cities.

Utility Ethics

Edison Electric Institute, with strict rules of business conduct and power to discipline members, succeeds "Nela," founded in 1885.

JUST 3 years after Thomas A. Edison opened the first central power station, the National Electric Light Association was organized in Chicago. There were 87 members representing 65 companies when it started in 1885. "Nela" grew until this year it had 20,000 members, representing 700 operating companies.

But all has not been well with Nela in recent years. It conducted vigorous propaganda, though not all members approved, and this part of its activities was severely criticized when details became known through Trade Commission investigations. Nela had no power of discipline over its members, and anyone could join. It grew unwieldy and heterogeneous. In 1931, there was a split in membership; United Gas Improvement and Public Service of New Jersey withdrew. This was an internal political row; the seceding companies returned when George B. Cortelyou was elected president. But it helped make many leaders in the industry feel the old association could not longer serve the industry to the best advantage.

Therefore Nela is to disband. It is succeeded by the Edison Electric Institute. The new league goes further than any other trade association in giving its officers and directors power to discipline members. The electric utilities, in other words, are embarked upon a program of self-regulation. Propaganda efforts will be abandoned. Engineering and sales promotion committees will go on, and joint projects with other branches of the electrical industry will be supported as heretofore.

Membership, which in Nela was open to manufacturers, contractors, dealers, will be restricted to operating and holding companies.

Strict Pledges

Members pledge themselves to publish financial statements which shall be audited by independent accountants; to give accurate statements to stock exchanges, consumers, stockholders, and the public; to keep holding companies' fees to operating companies "reasonable and commensurate with the value of services rendered"; to answer inquiry by the trustees as to methods, finances, and practices. Trustees, after investigation, can suspend, expel, or otherwise discipline members guilty of bad practices.

In the membership already are 87% of the voting members of Nela. Conspicuous absentees so far are Henry L. Doherty's companies, Associated Gas & Electric companies, and the Insull companies with the exception of Commonwealth Edison, the Chicago operating company.

Floyd L. Carlisle of Consolidated Gas and B. C. Cobb of Commonwealth & Southern are credited with being the moving spirits behind the organization of Edison Electric Institute. Mr. Cortelyou is president, as he was of Nela. Other executive officers carry over. Of the 24 trustees, 22 have been named.

Improvements

Medium-sized manufacturing plants want most new power equipment, inquiries show.

IMPROVED INDUSTRIES CORP. has been investigating the demand for new equipment in medium-sized factories.

Apparently new steam power plant equipment is the improvement most wanted, for 35% of all applications call for boilers, stokers, engines, turbines and allied equipment. The remaining 65% of applications are widely divided, including refrigeration equipment, conveyors, machine tools, chemical recovery processes. Industries interested—45% of them in the New York metropolitan area—include paper mills, bakeries, printing plants, packaging plants, canneries, textile mills, leather, ink, candy, and tobacco manufacturers.

New York First

Reasons for the concentration in the New York area are believed to be the intensive work of the Robertson committee, and the fact that many applications were filed through New York offices of plants in all parts of the country. It is to be remembered also that New York has more medium-sized factories than any other area.

Improved Industries Corp. will make its first loans this month. As a private corporation it parallels in a sense the work of the Robertson rehabilitation committee among the larger industries. Under its plan, manufacturers can obtain new machinery without down payment and without pledging their credit.

Land Banks

Talk of $200 millions more to bolster Land Bank bonds is in key with farm mortgage relief policies.

TALK in Washington of appropriating $200 millions to bolster Federal Land Bank bonds is in line with the farm mortgage relief policies that now pervade Congressional discussions. It is not made clear whether this $200 millions will be added as a stock subscription or merely will be added to the reserve of the banks. The bonds of the Land Banks, predicated on farm mortgages, declined from a premium in 1929 to approximately 75 in the autumn of 1931. At that time there was public concern that the entire system might collapse. An amendment to the Federal Farm Loan Act was hastily passed and approved Jan. 22, 1932, making it the duty of the Secretary of the Treasury to assist the Federal Land Bank with $125 millions, of which $25 millions was to go toward bolstering reserves and $100 millions was subscription to the bank stocks. This provision sharply advanced the Land Bank bonds, because it gave the impression to the bond market that these bonds will receive the same support and backing that is now given to U. S. government bonds.

An additional $200 millions will further support the Land Bank bonds and will make available additional private capital with which to refinance bonds, extend new loans and liberally extend interest and delinquent instalments to the farmers. Delinquent instalments, foreclosures, extensions on foreclosed real estate in the hands of the Federal Land Banks now total $90 millions out of total loans of $1,147,000,000.

A Sharp Distinction

This is a far better showing than that made by the Joint Stock Land Banks. These institutions should be sharply distinguished from the Federal Land Banks. The Joint Stock Land Banks are private institutions selling bonds in place of mortgages deposited with them. The bonds of the Joint Stock Land Banks have depreciated in the majority of cases to less than 20¢ to 30¢ on the dollar. These banks were made the subject of severe criticism last summer because of their ruthless policy in foreclosing on farm mortgages and then using the funds thus obtained to buy back their depreciated bonds. For example, an Iowa farm valued at $20,000 in 1929 and laden with a $10,000 mortgage would be foreclosed and sold in the open market for what it would bring, say $5,000. Although this ostensibly represented a loss to the Joint

Stock Land Bank of one-half of the mortgage, the bank could buy with this money $25,000 par value of depreciated bonds and thereby make a profit from the foreclosure.

It is now planned to abolish the Joint Stock Land Bank by a special liquidation corporation, a scheme which will not benefit the bondholders. Consolidating these banks with the Land Banks would make the bonds good but would greatly weaken the Land Banks. Though this plan has some support it deserves little consideration.

The contemplated provision of adding $200 millions to the Federal Land Bank will prove salutary in enabling the Land Banks to market additional bonds. The strengthening of the bond market is a forerunner for the orderly financing of farm mortgages through the land banks. Placing behind these bonds this additional amount of security opens opportunities for creating an additional market for Land Bank bonds and will enable the Federal Land Banks not only to refinance present mortgages but also to absorb additional mortgages and to relieve the entire situation.

Appliances

Results in English city interest American utilities now experimenting with the rental of household apparatus.

AMERICAN utility operators, increasingly interested in the idea of renting household electrical appliances as a means of building load, are digging into English experience for guidance.

One of the first cities to adopt the plan was Epsom, England, which began the rental plan in 1927. Irons, radiators, wash boilers, water heaters, cookers are rented. Average revenue per customer is $60 (at par exchange). Average price per kilowatt hour, 2.7¢; average cost of repairs to apparatus, 2.3 mills per kilowatt hour. Repairs consisted almost exclusively of replacing cords on irons and elements in other apparatus. The yearly rental charge is 10% of the installed cost of the apparatus.

Entoleter

Electrical discharge puts flour weevils on the spot.

FOUR mills making packaged flour have installed "Entoleter" equipment—a device which passes the packages of flour through a zone of high-frequency high-potential corona. The idea is to kill weevils or other pests, or rather, to sterilize their eggs so that they will not develop in the package before it is opened by the consumer.

Roads vs. Railroads

Truck and bus operators prepare a defense—and a few counter-offensives—in the inevitable battle against higher taxes and further restrictions. Their artillery is shooting over the legislatures at the railroads.

WITH further taxation and restriction of motor vehicles under consideration in the convening legislatures of 43 states, the automobile army, led by its bus and truck divisions, is organizing for a long defensive fight, planning counter-offensives. Since it has good reason to suspect that the attack is being spurred on by railroad battalions lined up in the rear, first shots are being dropped into the support trenches.

Several recent developments have stirred up the motor interests. One is the announcement by the Boston & Maine, the New Haven and the Boston & Albany railroads of a highway regulatory bill which they will sponsor before the Massachusetts legislature, of 6 other bills which they will support. If all these were to be enacted, new restrictions would be clamped on all trucks above 2 tons operating beyond 10 miles of their home cities. Common carriers would be required to secure certificates of public convenience and necessity, to operate on fixed rate.

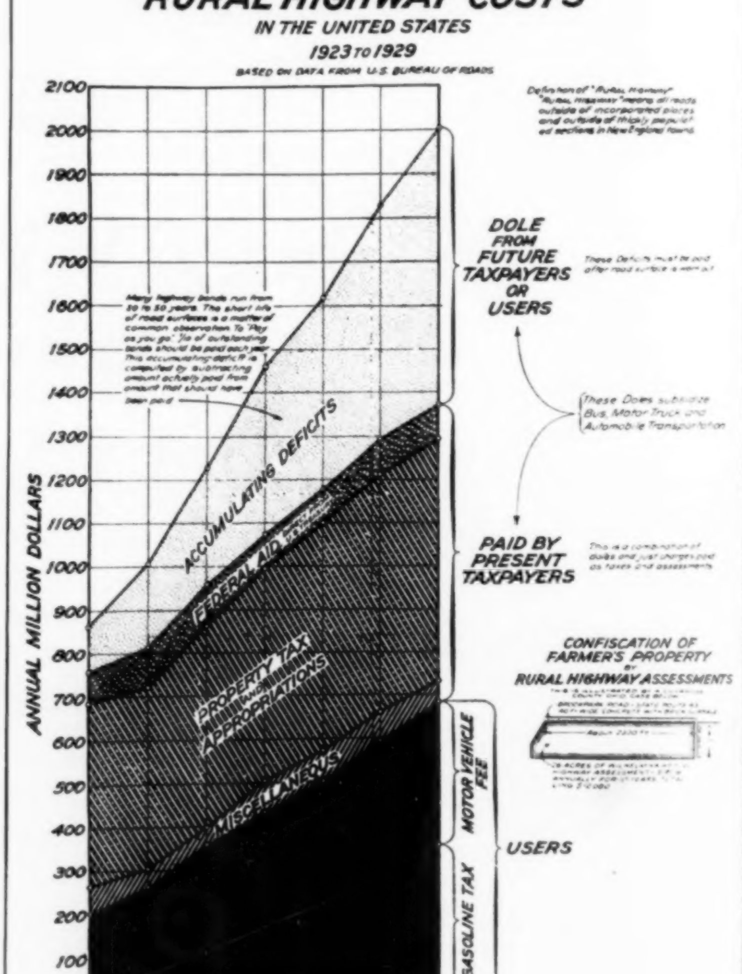
Contract Haulers Hit

All contract carriers would have to take out permits, set up rates not less than those of common carriers. Registration rates would be raised on the larger vehicles, allowable weights would be lowered. Some of these proposals do not seem excessive, considering what has been done in other states, but truckmen are suspicious of anything that draws cheers from a railroad.

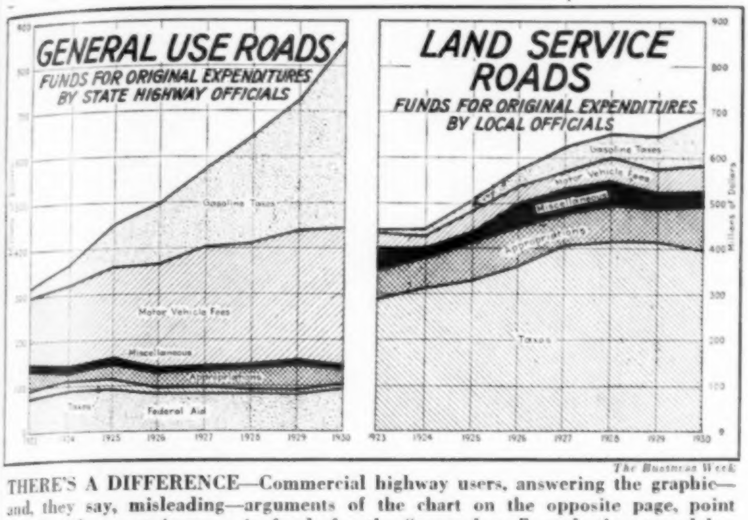
Similar or more drastic regulations are up at many another state capital. Danger points on which warnings have been issued by the National Highway Users Conference are Vermont, Colorado, Illinois, Minnesota, South Dakota, Pennsylvania. Governor Pinchot of the last state has aroused the highway men's ire by an endeavor to enlist the support of other governors for his plan to place size and weight limitations on trucks lower than those recommended by the American Association of State Highway Officials (*BW—Dec7'32*) and endorsed by several operators' associations. Particularly painful to the motor interests is the tendency to divert increasing proportions of gasoline tax receipts to purposes other than the building and maintenance of highways.

Another cause of distress among the commercial carriers is the "model" law approved by the National Association of Railroad and Utilities Commissioners and since then urged upon state legislatures by what the Highway Users Conference calls "powerful influences"—diplomatic for "railroads." Provisions placing contract carrier truck rates on a par with those of the railroads, making time schedules of common carrier cars subject to coordination with those of the railroads, forbidding truckers to give those they serve any "undue" advantage as compared with the patrons of the railroads, and otherwise tailoring highway service to railway designs make it look far from "model" to those for whom it is prescribed.

Meanwhile, the defense forces have taken time out to aim a bomb at a chart headed, "Who Pays Rural Highway Costs," prepared by Samuel S. Wyer, Columbus (O.) consulting engineer, for the "Fuel, Power and Transportation Foundation," also of Columbus, found on display in many railroad stations and reproduced on this page. Objections—and the truck and bus men are full of them—are summed up by Willard Chevalier in *Bus Transportation*.



TRUCKMEN OBJECT—Bus operators, too, say this chart, flaunted in railroad stations, is unfair in that it fails to distinguish between the 2 main classes of roads (as do rebuttal charts on opposite page), is constructed so as to make laymen think that all forms of taxes for road purposes are steadily mounting, misrepresents their contribution to highway costs. (See accompanying story.)



The Business Week

THERE'S A DIFFERENCE—Commercial highway users, answering the graphic—and, they say, misleading—arguments of the chart on the opposite page, point out that the great increase in funds for the "general use" roads they travel has come from gasoline taxes and motor vehicle fees, leaving the bulk of property taxes and appropriations to the local or "land service" roads.

He points out that, with the sharply rising curves for gasoline taxes and motor vehicle fees placed at the bottom of the chart, a misleading upward inclination is produced in all the other curves, whereas other expenditures, measurable by the varying widths of the sections plotted for them, have actually shown little increase. (This is brought out in the 2 charts by Mr. Chevalier published on this page.) Conclusion, "The author has chosen to use a method that tends to obscure this essential fact."

Other Objections

Other leading objections: (1) That the chart dodges the important fact that the great bulk of property taxes, appropriations and miscellaneous revenues collected are devoted to local or "land-service" roads, leaving the "general use" roads on which commercial carriers principally operate largely supported by motor vehicle fees and gasoline taxes; (2) that the chart calls public taxes devoted to the service of all motor car users "doles" which "subsidize bus, motor truck, and automobile transportation," with invidious emphasis on the commercial vehicle; (3) that in superimposing "accumulating deficits" on sections made up of annual items plotted year after year the author has perpetrated a graphical monstrosity; (4) that, since the average term for road bonds has been about 20 years and the average life of at least 40% of the roadwork financed by such bonds exceeds 50 years, there is no justification for assuming that "a tenth of the outstanding bonds should be retired each year."

Highway operators who have long had their eyes on this target say that its critic has made a direct hit, are now awaiting the counterfire of the railway artillerymen.

Fare Cuts Deferred

Railroads' differences over the strategic value of a slash in passenger rates may return the whole question to the I.C.C.

RAILROAD passenger officials are still at odds on the I.C.C.'s tentative proposal for a fare reduction. New York Central, Pennsylvania, and New Haven, whose passenger business represents about 40% of all there is, believe that the increase in travel created by a fare cut would not be sufficient to offset the loss on their steady "commercial" traffic. Baltimore & Ohio is wobbling, but the Erie, Chesapeake & Ohio and other Eastern roads probably find it politic to agree in opposing a reduction although they figure that they have very little to lose and might gain.

Western roads which have taken the lead in the fare reduction move may not give way so readily. Discussion in railroad quarters has brought forth the suggestion that the rate of fare, now 3.6¢ per mile, need not be uniform throughout the country, but lack of agreement probably will lead the I.C.C. to undertake a formal investigation and reach its own conclusion. It is convinced that something must be done to relieve freight service of the deficit in passenger operations.

Rearrangement of service either in conjunction with or as an alternative to a reduction in fare may be considered by the commission. Recognizing that they can't compete with buses and private automobiles on short hauls, some railroads are gradually shaping their operations to their belief that they can, at least, reduce their loss by curtailing local service or substituting gas or oil-driven cars for steam trains and maintaining attractive and comfortable long-distance trains.

Incidentally, the statement that action on fare cuts should be deferred until bus and plane rates are brought under the same regulations as railroad rates can be dismissed as an adroit move to make the fare controversy useful in the publicity war between the railways and highways.

Store-Door Jam

While railroads and I.C.C. dispute over tariffs, which some shippers say are too high, New York gets along without store-door service.

"IT is ridiculous to see the presidents of the railroads meeting month after month and not getting anywhere with the plan," said C. L. Hilleary, traffic manager of F. W. Woolworth & Co. "Perhaps we should drop it quietly and tell the Interstate Commerce Commission the reason."

But the I.C.C. says that the reason New York business houses are not getting the store-door pickup and delivery service which the railroads promised to put into effect on Oct. 17 after 15 years' agitation is that the roads haven't been able to file a holeproof tariff. The carriers say it's because the commission is too fussy about formal i-dotting and t-crossing. And some of the shippers, like Mr. Hilleary, says it's because the rail executives don't really want to tackle the job. Others who have been protesting the first tariff proposals (*BW—Sep28'32*) just say that they don't care.

Railroad men who admit that the successive postponements—the latest until Mar. 17—are due to tariff and zoning disputes among themselves as well as with the I.C.C. are betraying no secrets.

Hopeful, But Not Excited

New Yorkers are still hopeful but less enthusiastic since the publication of shipper objections to proposed rates, to inclusion in the base of a supervisory fee for the Railway Express Agency which is to handle railroad contracts with the trucking companies. Highway haulers, who may be privately worried, say publicly that they don't expect to lose any business when and if the railroads put the service into operation.

Meanwhile, the U. S. Circuit Court of Appeals has just upheld the railroads' right to go ahead with store-door delivery and pickup without obtaining a certificate of public convenience from the I.C.C., though it explicitly stated that that body retains full control over tariffs. The test case was brought by the Brooklyn terminals against the Pennsylvania, which got the jump on its competitors with a trailer service which has been operating between store-door and car-door since last fall.

Investments	Percentage of Total Assets						
	1906	1916	1921	1929	1930	1931	1932
Farm Mortgages	9.3	14.9	17.7	12.0	10.9	9.9	8.8
Other Mortgages	19.2	18.5	16.7	30.0	29.6	28.5	27.5
U. S. Govt. Bonds	0.1	0.0	10.7	2.0	1.8	1.9	2.1
State, County & Municipal Bonds	3.6	4.5	4.6	3.4	3.4	3.8	3.8
Canadian Govt. Bonds	0.8	1.3	2.1	2.3	2.3	2.4	2.4
Other Foreign Bonds	2.3	2.6	1.5	0.2	0.2	0.2	0.1
Rail Bonds & Stocks	34.8	31.3	22.9	17.7	17.0	16.2	15.6
Utility Bonds & Stocks	4.7	4.1	3.0	9.0	9.7	9.8	9.6
Other Bonds & Stocks	3.7	1.5	1.4	2.6	3.1	3.2	3.2
Policy Loans & Premium Notes	8.9	14.0	13.0	13.3	14.6	16.4	18.4
Real Estate	5.4	2.7	2.0	2.2	2.4	2.8	4.0
Collateral Loans	1.8	0.3	0.4	0.1	0.1	0.1	0.1
Cash	2.3	1.8	1.2	0.8	0.7	0.8	1.0
Other Admitted Assets	3.1	2.5	2.8	4.4	4.2	4.0	3.4
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

INSURANCE STAKE—How 52 life companies have split their investments since 1906, emphasizing what has happened since the depression took charge.

Policyholders' Portfolio

Survey of changes in life insurance investments shows that foreclosures have turned mortgages into real estate, depression has jumped policy loans, cut down railroad holdings, made governments more popular.

CONGRESSMEN, economists, and various propaganda organizations have all been emphasizing the view that, because of the range and magnitude of life insurance company investments, insurance interests and policyholders have a special stake in current governmental and financial problems. Efforts have been made to capitalize this in behalf of programs for farm, real estate, and rail relief, for federal, state, and local borrowing or economizing, for foreign bond adjustments, and for this or that attitude toward the utilities. When Mr. Baruch's (lately Mr. Coolidge's) National Transportation Committee unveils its proposals, stress will be again laid on the support of the insurance companies and the concern of policyholders.

What the Figures Show

The result has been to attract unusual attention to the status of insurance company investments at the beginning of the new year, particularly to any indications as to changes in the trend of such investments. Business men who do not usually get very excited about the statistical festivities of the Association of Life Insurance Presidents are now leafing over the pages of the published proceedings of that organization's annual meeting of last month for information on the subject. They are finding it presented most clearly and comprehensively in the tables compiled by John R. Hardin, president of the Mutual Benefit Life Insurance Co. of Newark, N. J., to cover year-by-year investments of 52 legal reserve companies (holding over 90% of the admitted assets of all United States legal reserve companies) since 1906.

The meat of this information, taken from Mr. Hardin's data, is presented in the special table accompanying this article. This breakdown of total admitted assets to percentage of total carried in each classification in key years up to 1929 and in each of the 3 depression years since tells the complete story of the shifting investment strategy of the insurance companies. The 1932 percentages represent expert estimates compiled on the basis of Sept. 30 reports and final figures are expected to show little change.

Special interest attaches to the trend since 1929. On the whole it reveals few surprises. Percentage of investment in mortgages on farms and other property has fallen off, due not so much, as Mr. Hardin pointed out, to withdrawals from this field as to the increase in foreclosures which have transferred many mortgages to the real estate classification. This is reflected most noticeably in the sharp rise in real estate from 2.8% of admitted assets in 1931 to 4% in 1932.

Percentage of assets represented by United States government bond holdings, as might be expected, has increased in the depression years after dropping steadily from the 10.7% peak to which it had mounted in 1921 from zero in 1916. State, county, municipal, and Canadian government bonds, presenting fewer attractions for obvious reasons, hold the same position in '32 as in '31. Other foreign bonds slipped badly last year—which is no surprise either.

Off the Rails

The general anxiety over the railroads' plight will inevitably call attention to the fact that the insurance companies have been cutting down their relative investment in rail securities throughout the whole period covered by the table. What the percentage table does not show is that in 1932, for the first time, they have also cut down the actual dollars and cents investment in rail securities. In contrast, the percentage of total admitted assets allotted to public utility bonds and stocks has risen since 1929, though here too there was a slight setback last year. Incidentally, Mr. Hardin's compilations bring out the fact that the insurance companies' rail stock holdings in 1932 amounted to $69,067,000 in preferred and guaranteed and $25,354,000 common out of a total of $2,960,000,000 in rail securities. Of $1,817,000,000 in utility holdings, $154,045,000 was in preferred and guaranteed stocks, $12,218,000 in common. To this is added $263,264,000 in other stocks. Total $523,948,000 in stocks to $4,859,052,000 in bonds other than governments.

Finally, while no striking conversion of long-term investments appears in 1932 or between 1929 and '32, the depression has left its mark on the chart, faintly in the increase in percentage of real estate holdings, but unmistakably clear in the mounting total of policy loans and notes. These made the sharpest rise of the whole period in the last year and now represent a larger percentage of life insurance company assets than any other classification except mortgages.

Bank Failures

Fewer than last year, bank suspensions still disturb the situation, and emphasize the need for a reformed system.

So low are our standards that we take pride in the fact that there were "only" 133 bank suspensions in December, 1932, against 358 in December, 1931. November, 95, against 175 in 1931. October, 102; in 1931, 522. September, 67; in 1931, 305.

Undoubtedly, conditions are better. For 11 months of 1932, there were 1,219 bank suspensions, against 2,298 for 1931 and 1,345 in 1930. It should be noted that 70% of the bank suspensions in 1932 occurred during the first 6 months.

The states hardest hit for 11 months

of 1932 were Iowa, Kansas, Michigan, Wisconsin.

The figures may be better, but they are not comforting. Numerous banks that have been helped by the R.F.C. now are in no sense banks but are doing a pawn-shop business. Throughout the agricultural regions in the West and South, and even in the East, bank holidays have been declared to give opportunity for the freezing of deposits by insisting that the large depositors convert their deposits into loans and thus save the banks. Therefore the drop in bank suspensions as indicated by figures does not reveal the true picture. The small banks are the most precarious institutions. The act before Congress to replace this weak and precarious banking system by a sturdier branch banking system remains as an important step in rehabilitating the financial structure of the country and to provide a free flow of credit to agriculture and trade.

Secondary Metals

Dealers and smelters of scrap organizing an institute.

SCRAP metal is becoming of greater importance every year. It is estimated that scrap copper recovered in 1932 was equal to 27% of the output of primary smelters. The story of iron, aluminum, and other metals is similar. Smelters of virgin metal are beginning to acquire scrap-smelting plants.

All this being true, the metals division of the National Association of Waste Materials Dealers plans to reorganize as the Secondary Metals Institute. Most important problem—to set up standards of nomenclature and definitions, impurities and penalties.

Silver

New speculative interest in silver must be local, for Europeans show a surprising lack of interest in silver coins. Even Germany is slowing down production.

THERE has been a good deal of talk in recent weeks of a rising demand for silver. The metal is selling at desperately low prices. Speculators think it almost inevitably can't go lower. So they are buying on dips.

Then there is talk of increased use of silver for domestic monetary purposes. Any "reflation" program might include some plan to use more silver to help a long-depressed industry and, as the popular fallacy goes, revive populous markets in the Orient which can thrive only when their silver currencies appreciate from present low levels.

Several governments have been buy-

ing silver during the past year (*BW—Jan4'33*). Germany is outstanding. France has been minting a good deal of silver coinage but with reserves of silver already in the country. Rumania, Turkey, Yugoslavia, and Manchukuo all are backing an extension of the silver coinage within their monetary systems.

What these first reports failed to reveal was the striking lack of interest in silver on the part of a number of other countries. In Belgium, for instance, no silver is used in the currency system, and the public seems completely satisfied with the existing nickel, copper, and nickel-copper coins.

Denmark does not use silver as currency. Danish coins now current are made of alloys of copper, nickel, tin, zinc, and aluminum. To add silver would require new legislation.

The Lithuanian currency law permits minting of silver coins in denominations of 1, 2, and 5 lits (a lit is about 10¢) up to 6 lits per capita. About 2.6 million lits of new silver coins might be issued without amending the present law but the country feels that no further coinage is necessary for the present volume of business.

Latvia, if it were to increase its silver coinage to the legal maximum, would require about 2.6 million fine ounces of silver, but has made no inquiries abroad for silver so is not expected to enter the market in the near future.

Italy and Germany have added a lot of silver coins to their national currency in the last few years but Italy has almost reached the legal limit, and Germany has definitely slowed down production of new silver coins since October.

World production for 1932 is estimated by Handy & Harman, leading American authorities, at 160.6 million oz. mined, 46.6 million oz. from demonetized coin; total, 207.2 million oz. In 1931, the total was 262.3 million oz.

R.F.C.

Liberalization of the loan policy of the R.F.C. is imminent. Construction programs are to be accelerated. Interest rates hamper expansion of loans.

FURTHER liberalization of the provisions under which the R.F.C. can extend loans appears imminent. The original provision that only "self-liquidating" projects are to be included is not sufficiently broad to meet satisfactorily the urgent needs that continue to arise in consequence of the depression. Pressure is being brought on Congress to afford further relief to unemployment and agriculture, and bills are in the offing to extend not only the provisions of unemployment relief but also to give the board much wider authority in order to expedite a large program of public work.

The reduction of applications to an average of 36 a month shows that an insufficient volume of loans qualifies under present specifications. In the past about 50% of the applications have been approved. The average loan has approximated $1 million per application granted. Even if the present average does not diminish further, the loans under present law would not exceed $18 millions a month. This is altogether insufficient to deal with the volume of unemployment. Senator Wagner's proposal that the interest rate for R.F.C. loans be fixed at ½% above the rate of interest paid on U. S. government bonds is meeting with vigorous objections because it is contended that such a low rate of interest in many sections of the country would never match private lenders and therefore would make it difficult or impossible to refinance these loans.

Interest Rate Obstacle

Nevertheless it is important that further loans be encouraged and the interest rate is recognized as one of the principal obstacles in a number of important projects including the 38th St. tunnel in New York. Another field which might absorb a large volume of loans is the construction of schools, school and college dormitories, and other educational building projects. School districts and private institutions are ready to avail themselves of such loans if made on attractive and liberal terms.

The loan of $22 millions to the City of Los Angeles for the construction of a transmission system from the Boulder Canyon project of the Colorado River, to which will be added $11,400,000 funds from the Los Angeles Bureau of Power and Light, is being exhibited as a sample of additional municipal projects that should be developed by the R.F.C.

The R.F.C. reports crop loans to farmers up to Jan. 9 totaling $64 millions, of which 42% has been recollected with a total interest payment of $2 millions. Representative Jones is sponsoring a bill which will make $75 millions available for crop loans in 1933 and which in the discretion of the Secretary of Agriculture may carry with it a provision for a 30% crop reduction.

Among the major proposals to liberalize present loan provisions of the R.F.C. there are in the offing a host of policies and suggestions to increase R.F.C. activities and include the refinancing of farm mortgages, further to liberalize its provisions whereby loans can be extended to railroads, and to assist in the refinancing of large corporations. These latter provisions will require thorough sifting but the immediate need, of making the R.F.C. available for unemployment relief, should not await the disposal of the broader provisions.

Acme

"I'LL HAVE YOU KNOW!"—Chairman Pomerene of the R.F.C. (right) rises to defend his policies when they are criticized by Senator La Follette.

Wide Reading

AGRICULTURE: THE KEY TO RECOVERY. Frederick E. Murphy. *Review of Reviews,* January. Minnesota farmer-newsman suggests that the government forcibly reduce acreage, tax imports of oils and fats, give the tariff commission authority to deal with imports from depreciated-currency countries, reduce interest on—and adjust—farm mortgages.

MEET ZINC—A METAL YOU OUGHT TO KNOW. Lewis K. Urquhart. *Factory & Industrial Management,* January. How zinc is used, and where. New features.

THE CHECK TAX. *American Bankers Association Journal,* January. The average amount of each check cashed since the tax was levied has gone up 14%; the number of checks has gone down 15%. Charts of the trend in each Federal Reserve district.

WHAT THE VOLUNTARY DOMESTIC ALLOTMENT PLAN MAY MEAN TO THE FOOD INDUSTRIES. Laurence V. Burton. *Food Industries,* January.

RADIO REVIEWS. Cyrus Fisher. *Forum,* January. Some smart comment on radio programs. Worth 10 minutes from any executive responsible for his company's radio advertising—or any continuity writer who wonders what people think of various programs.

THE PERMANENT BASES OF JAPANESE FOREIGN POLICY. Viscount Kikujiro Ishii. *Foreign Affairs,* January. Some fundamental ideas from the man Tokyo has chosen to solicit "better understanding" in various foreign capitals. He is due in Washington in May.

AUTO-RADIO, AN EXPANDING MARKET IN 1933. *Electronics,* January. The radio industry still hopes for an automobile manufacturer to make auto-radio as an integral part of his entire output of cars. The automobile industry still considers radio as a gadget to be installed if the car owner wants it.

BUSES BOUGHT BY ORGANIZED TRANSIT COMPANIES DURING 1932. *Transit Journal,* January. A record of last year's business—showing who did it.

BOOKS

THE CONSUMER: HIS NATURE AND HIS CHANGING HABITS. Walter B. Pitkin. McGraw-Hill, 421 pp., $4. How much do farmers, college freshmen, barbers, brokers spend for rent, tobacco, ice cream—and where do they choose to spend it? Results of a 7-year study of buying peculiarities. The advertising manager will wnat a copy at once.

CAUSE AND CONTROL OF THE BUSINESS CYCLE. E. C. Harwood. Financial Publishing Co., Boston, 165 pp., $2. An author convinced that he has found a logical explanation of the business cycle in the excessive expansion of bank credit relative to accumulated savings. Presents an "Index of Inflation" based on the difference between investments and savings of all banks in the United States. Critical of Foster and Catchings, Keynes.

Technocratic Unemployment

From the statistical depths of "Recent Social Trends" arise figures to confute the Technocrats, showing that the machine has created more jobs than it has killed.

DESPITE unusually rapid technological progress during the last 10 years which has substantially increased the productivity of labor, there has been no net decrease in the number of jobs available to the workers of the country. On the contrary, not only has the total number of gainfully employed workers continued its steady increase, but the proportion of workers to total population has also increased.

These conclusions are drawn from the section on Occupations prepared by Ralph G. Hurlin and Meredith B. Givens for "Recent Social Trends" (McGraw-Hill), the report of the President's Research Committee.

This information is particularly pertinent now when Technocracy is declaring that job opportunities are decreasing, may entirely vanish within a few decades. The facts presented by the authors of this section definitely demonstrate that Technocracy's spectacular charges are unfounded.

Outstripping Population

Since 1900, while total population has increased from 76 millions to 122.8 millions, or 60%, the number of gainfully employed has increased from 29.1 millions to 48.8 millions, a gain of 68%. During the decade from 1910 to 1920 total population rose 19%, while the number of gainfully employed increased only 9%. During every other census period, including that from 1920 to 1930, which was most prolific of all in technological changes, employment opportunities increased faster than total population.

In specific industries and occupations there have been drastic reductions in the number of persons needed to carry on, and more of such cuts in personnel may be expected in the future. What critics of the present system do not seem to appreciate is that there have been at the same time wide changes in personnel requirements, which—up to the 1930 census, as least—have effectively compensated for technological progress in so far as it has affected employment.

Job Opportunities

Of the 9 great occupational groups into which the decennial census classifies the workers of the nation, none offered fewer job opportunities in 1930 than in 1900; only 1 offered fewer in 1930 than in 1910; and only 2 offered fewer in 1930 than in 1920. Agricultural employment in 1930 was 3% less than in 1920, 6% less than in 1910, but still 4% greater than in 1900. Mining employment in 1930 was 9% less in 1920, but 3% greater than 1910 and 69% greater than in 1900.

Since 1920 4 of the 9 occupational groups increased their job opportunities at less than average rates. Total gainfully employed workers increased 17% in number during this decade. Agriculture and mining lost workers; manufacturing and mechanical gained only 11% and public service only 8%. To offset this loss of job opportunities, trade industries required 45% more employees in 1930 than they did 10 years before; transportation industries employed 25% more; clerical occupations 34%; domestic and personal services 50%; professional services 41%.

Technocracy points to manufacturing industries as the chief source of labor displacement by power and mechanization, but even in this selected group the case for permanent technological unemployment is not clear. Comparison of the more detailed data made available in the census of manufactures for 1919 and 1929 discloses that of the 16 great industrial groups surveyed, 9 had fewer employees in 1929 than in 1919; 6 had larger payrolls, and 1 did not change. Total employment in 1929 was 12% less than in 1919 in the food industries; 16% less in chemical industries; 7% less in tire and rubber industries; 10% less in leather industries; 3% less in stone, clay and glass industries; 5% less in non-ferrous metal industries; 33% less in railroad transportation; 23% less in railroad repair shops; 20% less in miscellaneous industries. But during this same 10-year period employment increased 2% in the textile industry; 9% in paper products; 12% in printing and publishing; 9% in coal and petroleum; 3% in iron

Acme

THIS IS HOWARD SCOTT—The first published photograph of the elusive leader of Technocracy was snapped, before he knew it, by an enterprising cameraman in Cleveland, somewhat distant from his Greenwich Village haunts. Tall, scraggly, he is noted in the Village as a great talker, fond of tall yarns, startling theories.

and steel; 10% in machinery. Employment in the forest products industry did not change. The net result of all these changes over 10 years was a 2.3% drop in employment for the group of 89 industries covered in the study (which is not identical with the broader "manufacturing and mechanical" group of the decennial census.

Although permanent technological unemployment appears to be still in the future, Technocracy's charges cannot be idly dismissed. As Messrs. Hurlin and Givens point out, equally important social problems face us now from the effects of the drastic readjustments which have been necessary to maintain our gainfully employed population at work. Most spectacular has been the shift from the farm to urban districts, with a tremendous increase in the dependence of millions upon their money incomes. More women, particularly more married women, are working outside their homes. Old skills and techniques which required years to perfect are being lost with progress in machine production. Machines are easing the toil of productive work. White-collar workers are increasing in number. Freedom of employment opportunity is more limited than ever before. All these changes call for drastic readjustments of jobs and among job-holders.

Filipinos

If Manila refuses the first offer of independence, the next one is likely to be less liberal.

WASHINGTON—The extraordinary spectacle of a legislative body in the Philippines nullifying an action taken by a two-thirds majority of both House and Senate is confidently expected, following passage of the Independence bill over President Hoover's veto. Under the terms of the bill, it must be accepted by the Philippine legislature. Word reaching Senator Hawes, of Missouri, and others in Washington following a caucus of the House of Representatives at Manila is that the Filipinos will kill it.

Passage of a new Philippine Independence bill by the new Congress, now expected to convene in April, is predicted as a result. The new bill, it is believed, will satisfy the spoken objections of Quezon to the present legislation, and will meet some of the objections voiced by President Hoover. But it is likely to be much less liberal in its treatment of Philippine exports to the United States, cutting down the time during which free entry would be permitted, also permitting the scaling down of amounts.

It would satisfy Quezon, it is predicted, by withdrawing American military forces at a much earlier date. Incidentally, this would meet the objections of some of the Republicans, who think this government should not maintain military forces in the islands unless some civil authority be also retained.

Fewer Voyagers

Reduced ocean fares failed to win more traffic. Immigrants go home. Tourist and third-class popular.

TRANSATLANTIC ship lines are convinced now that it takes more than a reduction in fares these days to make people travel. Last spring the conference agreed to reduce all fares an average of 20%. There was a slight increase in bookings on the first few sailings after the change. Then the same old slump continued. All the romantic advertising, all the lure of week-ends at sea, all the reductions in rates to such low levels that almost every management protested, failed to induce people to travel. The urge was there, but not the means.

Year-end figures have just been released. They show that transatlantic travel fell off 82,000 during the year. Total bookings in both directions were fewer than 860,000. Only eastbound sailings from Canadian ports reported an increase, and this was small.

Broken down into travel classes, some interesting trends become evident. Tourist and third-class bookings increased on all runs to and from United States ports. Third-class bound for Europe particularly showed the influence of immigrants returning to old homes. Second-class bookings hit the steepest decline, probably due to the increasing popularity of cabin class and tourist accommodations.

Rumors persist in New York that travelers in Europe, planning to return to, or visit, the United States, are taking advantage of the depreciation of sterling and buying their passage in London. It is generally known that competing lines are following a unified policy because of their conference agreement. It is not generally known that they are making a surcharge in Britain on normal quotations in sterling, especially to cover the loss due to depreciation of the British pound. This surcharge has ranged from 25% to 28%. Inasmuch as sterling has depreciated more than 30%, the purchaser makes a comparatively small gain by securing westbound passage in England.

On the Pacific, fares for the voyage from Japan to the United States are quoted in dollars on all lines, also because of a conference agreement. The yen has depreciated more than 50%. Quoting in dollars was preferred by the conference to any plan for yen quotations plus a surcharge.

"Let Us Protect Your Bonds"

Bondholders' protective committees have become something of a racket. There are protests from all sides. A plan is under way to create a central authority.

CHARLES E. MITCHELL (National City Bank), when he testified before the Senate committee in Washington last fall, estimated that there were 2½ million Americans who hold foreign bonds. The total amount of foreign bonds held in the country is estimated at $17 billions. Some of them are quoted at par and are paying interest without delay. But most of them have depreciated, and interest has been defaulted on a large number of issues. Blackest outlook for foreign bonds was late last May. There was a lull following the August recovery, but recently the trend has been upward.

No Official Body

There is no official organization in the United States to protect the holders of foreign bonds. Investment houses which sponsored various bonds when issued have in some cases assumed responsibility for these issues, have sent agents to the foreign country when it seemed wise, in order to protect the interests of the American bond market. Other investment bankers have assumed no responsibility along this line.

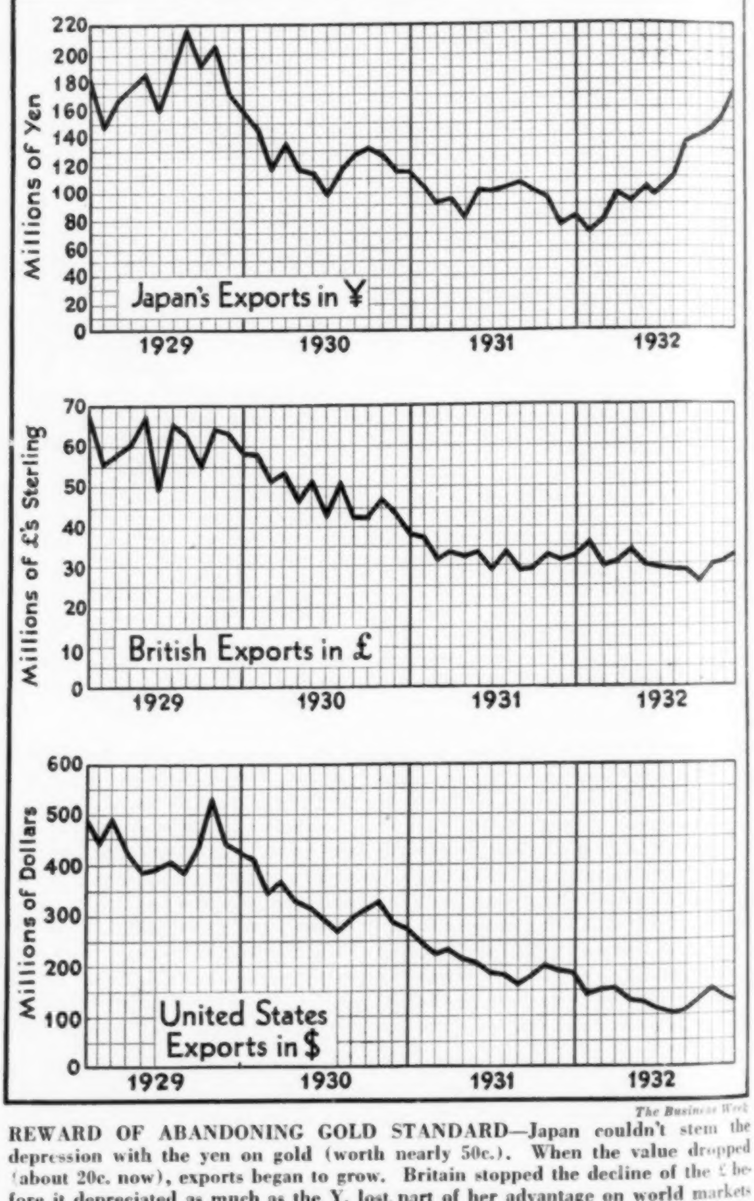
In the boom days when the majority of foreign bonds were still "good," only a few conscientious bankers and large bondholders talked of setting up a central bondholders' protective association, similar to the British Corporation of Foreign Bondholders which has served the British investing public for more than 2 generations with the official approval of Parliament and so without petty competition. Its duties began long before bonds went "bad." The corporation used its influence to regulate new issues, to protect the new investor as well as the holder of old bonds. The French, the Swiss, and the Dutch exerted a similar control on their bond markets through official centralized committees.

Mushroom Growth

The epidemic of defaults in the last 2 years has caused a mushroom growth of bondholders' protective committees in this country. At first, most of them were set up to protect holders of all bonds for a certain country, or an entire corner of the world. More groups came along to protect individual issues. And at the peak of the growth there began to be several committees attempting to protect each issue of bonds.

It was just here that each group began to refer to other groups as "racketeers." It was nothing unusual to receive in the morning's mail the announcement of more than one new protective group, each asking that you deposit your Patagonian 7's or your Jehol 8's with a new group. Usually for a $3 or $5 membership deposit you were supplied with information regarding economic conditions in Patagonia or Jehol. Or you deposited your defaulted bonds with the office and promised to pay up to 1% of the face value of the bonds if officers were successful in excavating new interest reserves which they paid out only to bondholders who had joined.

In part, the "racket" criticism is justified. It is true that, with no official restraint, irresponsible groups have been formed which have taken the fees and offered mighty little in return in the way of information, nothing in the form of interest. It is just as true that a few groups have taken a conscientious interest in the problem and have kept bondholders informed of important developments. Small individual holders may not have gotten their money's worth out of the service. Bankers,



REWARD OF ABANDONING GOLD STANDARD—Japan couldn't stem the depression with the yen on gold (worth nearly 50c.). When the value dropped (about 20c. now), exports began to grow. Britain stopped the decline of the £ before it depreciated as much as the Y, lost part of her advantage on world markets but blocked the decline in exports. American prices (still quoted in gold $'s) compete with difficulty with "off gold" prices; U. S. exports are still declining.

away from metropolitan centers and dependent on a local press for a flow of international news which is merely a trickle of insignificant novelties, probably have been helped.

It is important, however, that most of the groups have no respect for most other groups. And it is important that there is no central authority to which the public can appeal for an appraisal of the various associations which have been set up.

Only one protective committee in the latest emergency has succeeded in reviving interest payments for its subscribers. In this case, no official decision has yet been made on the justice of a scheme which allows 50% of the subscribers to a certain bond issue to benefit from a lump payment on deferred interest by a debtor government simply because they had been willing to trust their bonds to the group, while the other 50%, who might not have heard of the plan or who had no means of checking the integrity of the organizers, got nothing.

There is talk in the offices of New York issuing houses and in the headquarters of some of the foreign bondholders' protective groups of the formation of a new central control. Washington is discussing the same matter. Just about everyone but the out-and-out racketeer is agreed that it is time that something be done.

A-1 Men Wanted

Everyone has his own idea but almost everyone seems inclined to want a group of A-1 business men, well enough known to be respected both by bankers and clients, set up as a central body of control. They must be approved by Washington because cooperation with the State department will be one of their most important functions.

It would be the duty of this group, as popularly conceived, to act as a central board of sanction to say what protective committees can function, and how far their functions should go. Most important, they would coordinate the efforts of the State Department and protective committees, something absolutely essential in handling the question of defaulted foreign government issues.

There is no assurance that this is the pattern which will be followed in setting up the United States' first authoritative, central bondholders' protective corporation. The only certainty is that bondholders and responsible issuing houses are agreed that some such organization must be set up, and soon. Most people expect results during the year. Everyone will watch Roosevelt after Mar. 4 for action on this general question of the rights of bondholders.

Tariff

Bureaucrats scurrying to gather information for the new President's reciprocity proposals.

WASHINGTON—Everything possible is being done to facilitate Roosevelt's plan to initiate individual negotiations with foreign countries on tariff reductions, or reciprocity agreements—though the word "reciprocity" is frowned upon in all official circles.

There is a great scurry to whip together information on special industries so that the new President may be able to inform his new crop of ministers and ambassadors, and, perhaps more important, the commercial attachés who do not change with administrations.

For example, the Tariff Commission is hurriedly gathering all possible information about the cutlery industry. Great Britain and Germany are the chief producers. Armed with the facts, the President may wish to take up with those nations some proposal that we lower the bars against cutlery in return for concessions on some of our products.

Japanese Steel Merger

Entire Japanese steel industry to be reorganized under central control, and to be operated by private initiative. Imperial Steel already at work on reorganization project.

JAPAN, by government legislation, plans to mold into one great unit the country's scattered steel industry. The Imperial Government Steel Works, which produces most of the country's steel and about half the pig iron, will be the nucleus of the new organization, though the revamped industry will be under private control. The bill is before the Diet now. Little opposition is expected because representatives of most of the companies which will be included in the merger have been on the survey commission or have been consulted.

When the Japanese first planned in 1930 to merge their steel industry into one great organization under central control, it was to rationalize production with the hope of overcoming cheap Indian imports. When tariffs were raised to foster domestic readjustment, and when the depreciated yen broadened the foreign market for Japanese steel products, a new impetus was given to the

plan. Recent rush orders from the army, however, gave the important last push that was needed to put the plan across.

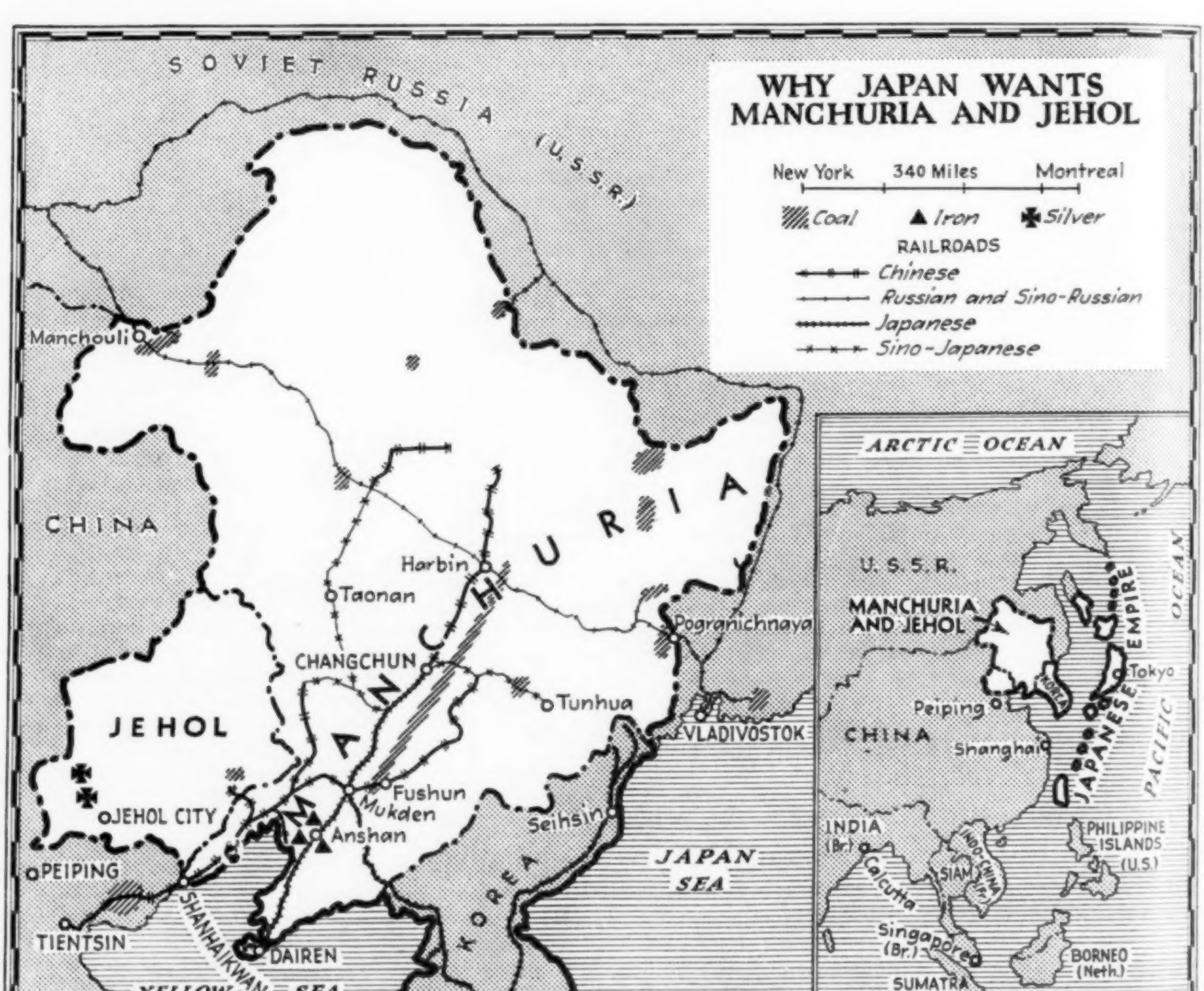
The plan will be carried out in 2 steps. Five companies will first be merged with the Imperial Government Steel Works. These are the Kamaishi Mining Co. (controlled by Mitsui interests), Kenjiho Mining (Mitsubishi), Toyo Iron, the iron department of the Asano Dockyard, and the Japan Steel Works (Mitsui). Combined capitalization of these companies is ¥277,263,000 (about \$55½ millions at current exchange). Total capacity is 1½ million tons of pig iron a year, a slightly larger volume of steel ingots. Subsidies to these companies will be abolished but the right which Imperial Steel has exercised of borrowing from the government up to ¥70 millions will pass to the new organization. Also the new organization will be charged with maintaining 1½ million tons of steel on hand for military purposes.

The second step of the merger contemplates the absorption of 8 other private companies: Fuji Steel, Osaka Iron, Kobe Steel, Kyushu Steel, Japan Steel Tubing, Asano Kokura Steel, Anshan Iron, and Penchihu Iron. The last 2 companies are in Manchuria, Anshan being the great iron development controlled by the South Manchuria Railway.

Because scrap iron, which used to cost ¥23 a ton, has risen to ¥43, Imperial Steel Works, which uses an immense amount each year, has decided to pend ¥9 millions in reconstruction of its smelters to avoid use of scrap in the future. The Japanese steel industry consumes more than 900,000 tons of scrap a year.

According to the plan, Imperial Steel's 12 hearths of 25-ton capacity are to be replaced by four of 100-ton capacity each, capable of producing 350,000 tons of steel ingots a year. These will operate on the hot process, taking the ore and turning it out as steel. They will use no scrap. All the machinery is to be made at the works. Work has commenced and will be completed in 2 years. The new 700-ton smelter, said to be the largest in the Orient, will be finished next fall.

Due to the rush of military orders and to the merger, iron shares have been rising rapidly.



PRIZE—Occupation of Manchuria (as "protector") gives Japan control of a region in which more than \$1 billion of Japanese capital is already invested. Coal deposits are enormous (the Fushun deposit alone is estimated at more than 1 billion tons). Iron ore is found near Anshan, alluvial gold near the Soviet border. Vast forests in the east extend into Japanese-controlled Korea. The Japanese also get: coal shale which gives oil (Japan has very small deposits); the world's greatest soya bean producing region; uninterrupted opportunity to develop the port of Dairen (second to Shanghai in volume of traffic). If Jehol is taken, newly acquired territory will equal almost twice Japan's present area, will give Tokyo control of the traditional "gateway to Peiping." It brings Japan into direct contact with Russia and China, increases her importance in the Pacific where Britain, France, Holland, and the United States (particularly until the Philippines are free) are vitally concerned.

Business Abroad

Japan goes on boldly with national program for the Far East. Germany's political truce is upset by Hitler. France loses gold while arguing a new budget. Securities remain firm, but commodities are irregular. Outlook generally no more unfavorable.

Europe

EUROPEAN NEWS BUREAU (*Cable*)—A blow in the midst of Germany's political calm of the last few weeks, the continued flurry over the French budget, the temporary restriction on London's "best deal of the century" (Liggett's sale of the Boots drug chain for $27 millions), Geneva's excitement over the first of the renewed discussions on the Far Eastern situation and the prospect that the agenda for the World Economic Conference will be published before there is further bickering among various nationals—these are the news highlights in Europe this week.

German Election Prospects

German business is very much unsettled by the prospect of a national election in another 6 weeks, though there is still no certainty that it will be necessary. Hitler's gain in Lippe, however, has given his somewhat deflated party a new lease of life. The most hopeful factor in the situation is the prospect that an election, if necessary, will be carried out in the shortest possible length of time allowed by law.

London and New York are still feeling the effect of the prolonged budget discussions in Paris. In the case of London, the pound sterling has been unusually steady on fresh demand from France. It is said the British Exchange Equalization Fund has been drawn on freely to keep sterling from booming beyond control. Dollars also have sought refuge in Britain due to the dread of some form of inflation in Washington. The situation in Britain is not sufficiently favorable, however, to be expected to cause any prolonged flight of capital from Paris or New York.

Securities Firm

Securities markets have remained remarkably firm throughout the week despite disquieting rumors. German stocks sagged following the reports of the Hitler success, but not all issues were affected. German bonds have been weaker on various exchanges due as much to profit-taking as to reaction to the political upset that is anticipated.

Commodities have been irregular all week and slightly lower.

Only a few industrial gains are reported. In Germany, production continues to gain slowly but there is very little increase in the number of employed. In Britain reports from the textile areas are encouraging. France, following several weeks of disquieting decreases in industrial output, reports small gains for iron, coal and textiles. Rail traffic also showed slight improvement. Italy insists that the outlook is brighter but fails to identify improvement with specific industries. The Bank of Italy reduced the discount rate to 4%.

Europe's "powder kegs" are watched closely for signs of fire. Yugoslav–Italian tension over Albania has not been eased. Yugoslavia is reported to be planning to ask Paris for a further loan, and it is expected that French public sentiment will refuse to consider such a thing, despite the need now to maintain friendship with satellites in the southeast.

Another "Powder Keg"

The Polish Corridor question is constantly in the limelight so long as Germany goes ahead with plans to rearm and revive universal military service.

The flurry caused by the Italian arms shipment to Hungary will not soon be forgotten. Nor will it make the problem before the international delegates at any European conference simpler.

And finally, there is considerable concern over the Far Eastern situation, the small states in the League of Nations being determined on a firm policy, the larger states (most of them with important colonial domains in the Orient) more willing to be patient.

Spain Favors Mexico

Some attention has been attracted to the agreement by Madrid to grant Mexico a credit of 70 million pesetas to be applied in payment for 6 war ships which will be built for Mexico in Spanish shipyards. It is known that the original plan contemplated a barter arrangement whereby Mexico would pay for the warships "in kind." It is obvious that the new republican officials in Madrid are courting the favor of Latin American nations.

Efforts on the part of the members of the European steel cartel to reorganize and continue the organization failed at the initial meeting in Brussels this week. It is expected that at later meetings some agreement will be reached.

Copper interests are watching the news from Sweden. It is expected that the Boliden copper mine (one of the profitable properties among the Kreuger & Toll-holdings) will get into full production this year and that at least half of Sweden's copper needs will henceforth be supplied at home.

Being watched by business throughout Europe: Preparations for the meeting of Germany's "standstill" creditors in Berlin next week; possible trade treaty negotiations between Britain and the Scandinavian countries; flow of gold from France; announcements from Geneva concerning prospective agenda for World Economic Conference.

France

Business still unsettled by inability of the Finance Ministry to balance the budget satisfactorily. Coal, iron and textiles register gains during the week. Federal Reserve action on gold irritates France.

PARIS (*Wireless*)—Finance Minister Chéron's budget stabilization plan has not received an enthusiastic reception in the Chamber, notably by the Socialists who are continuing their efforts to get the Finance Committee to adopt counter projects. They are especially against calling for an all-round 5% reduction in salaries for the 775,000 persons who would be included. This includes state railway personnel. The Socialists, characteristically, favor rather a greater reduction in military and naval expenses and an increase in the business turnover tax.

M. Chéron has now attached to his bill a demand for a second monthly provisional credit in the hope of speeding up a vote on the ensemble, but it is understood that the Chamber is antagonistic to this tactic and probably, at the end of the month, will detach this credit and vote it separately since treasury funds are limited to month-to-month expenses until a new budget is passed.

In the face of this uncertainty regarding the government's financial plans, there is a continued rise of unemployment though certain statistics indicate a slight improvement this week in business conditions, particularly a decrease in the deficit of railway receipts and an increase in activity for coal, iron, and textiles.

French Foreign Trade

Year-end foreign trade figures show an import balance of over 10 billion francs in contrast to 11.750 billions for 1931, or a reduction of 13%. December imports were 4% below December, 1931, but exports were down 20%, while for the entire year imports are down 18% and exports 22%. The greatest decrease in exports was in manufactures, which were down 37%.

The less unfavorable foreign trade balance reflects no progress, since it is

due to contracting import trade. As a matter of fact, the enormous decline in tourist traffic, returns from which in former years have covered this unfavorable balance, will leave the total balance very much adverse. This probably will have an important repercussion on the present monetary position of the country.

Exchange markets here are aghast at news that the New York Federal Reserve Bank has changed its regulations on the fineness and shape of gold bars, and is remelting them when these requirements are unfulfilled. The new regulations, which it is said were enacted early in December, have been received here only recently and shippers are complaining of important losses on exports of gold made in the last few weeks. The new gold point has risen during the week from 25.6150 to 25.6250. Action of the Federal Reserve irritates the Paris exchange merchants, who have suggested that a meeting of control banks be called to decide on uniform regulations.

During the week the dollar tended to rest below the gold export point for this reason, and volume of demand was very restricted.

Great Britain

Liggett deal may be banned because of exchange difficulties. Railway shares decline on decision of Rail Board not to back wage-cut demands of the railroads.

LONDON (*Radio*)—Hardened Britishers who have in their time taken an intimate part in some of the largest deals in financial London universally looked on the "Liggett sale" last week as "the best of the century." They held no grudge against Mr. Liggett who had bought Britain's biggest chain of drug stores 12 years ago for $10 millions and now, after greatly extending them, was selling them for a reputed $27 millions. To the informed Britisher, it was a deserved profit. In the interval of development, the British investment market had had the opportunity to buy shares and participate in the handsome profits which have been paid. Naturally, there was pride that control of the country's greatest drug chain was coming back to Britain through the proposed purchase by a British syndicate.

It is only natural that the brusque order from the Treasury that the deal be halted should cause bitter indignation. There was reason for the move. The exchange position of Britain was jeopardized by the payment to Washington of the December annuity on war debts. It is known that there is no intention of making a further payment to New York in June whether the debt question is settled or not because of the problem of transfer. The British gold reserve, according to the latest statement from the Bank of England, shows stocks worth only about $586 millions. (Gold on deposit with the Federal Reserve in New York is about $4.55 billions; in the Bank of France about $3.24 billions.) The transfer of $27 millions now, above the usual commercial demands, would weaken sterling. The British government has, temporarily at least, ruled that the deal cannot go through. Mr. Liggett is still in London and it is reported in the City that the deal may yet be accomplished.

No Railway Wage Cuts

Another piece of official action had wide effect on the market this week. This was the decision by the National Railway Wages Board not to uphold the demand of the four great railways for the right to cut wages another 10%. In the final report of the chairman of the Board, there was a recommendation for cuts up to $5 millions (the railways were demanding cuts up to $20 millions). The next move must come between the railroads and labor. A general strike is not expected, but it is a possibility. Railway shares were generally down on the week.

There was a sop for business from official quarters. The Treasury Department, as if to salve the feelings roused by official restriction in the Liggett deal, removed the restrictions on new capital issues which have existed since Britain set out to clear the market for the great conversion last summer. There is still a partial barrier. Restrictions were not removed from foreign issues or issues, the proceeds of which are remitted directly or indirectly to countries outside the British Empire; or from the optional replacement of existing issues by new issues if they rank as trustee securities and involve either underwriting or the invitation of the public to subscribe to new funds.

Earnings Reports

Earnings reports for 1932 are not yet completely made up. Profits of 472 industrial companies, however, have been compiled and show a decline of 18% for the year. The same group at the end of 1931 showed a decline in profits for that year of 22½%.

Britishers are carefully following the trend of the cost-of-living index for the first signs of a rise following the imposition of tariffs. So far the general index is still declining. At the end of the year it stood at 42, compared with 43 at the end of November, and 47 at the end of 1931 (based on the 1914 level). Wholesale prices of all classes of meat are rising. The position at the end of November, compared with October, shows increases of 11% or more on the whole range of beef, mutton, and bacon. On certain classes of imports from New Zealand, the write-up was as much as 30%.

Foreign trade returns for the year became available during the week, showed that the long decline in exports had been quite effectively stopped (page 22), and that the volume of imports had been cut drastically by the new tariffs.

British firms have a new interest in the Near East. Since early last fall orders have been coming through for materials to be used in the Mosul oil project. Now Turkey has granted British interests the first concession since the war—the right to construct and operate a train ferry service between the European and Asiatic sections of Istanbul.

Germany

Business unsettled by Hitler success in small state election which may encourage general elections in the Reich. Industrial production still expanding but without absorbing much new labor.

BERLIN (*Cable*)—One of the smallest states in all Germany is Lippe-Detmold (it has a bare 160,000 inhabitants). It was in the legislative elections in this little state last Sunday that Hitler's ebb tide of fortune turned. His candidates were successful far beyond the expectations even of the Hitlerites.

Repercussions were widespread. All last week's conversations between Hitler and von Papen, and between von Schleicher and various party leaders, are far less significant now. Hitler's strategic position has been greatly strengthened. Strassor's break from the Hitlerites and his attempt to join with von Schleicher lose much of their former significance.

Next move will come before this can be printed in America. The German Council of Elders will meet in Berlin on Friday or Saturday and determine whether or not the Reichstag is to meet as scheduled on Jan. 24. A week ago it looked as though Hitler would do well to back a plan for postponement of the elections because of the break in his forces and the depletion of his treasury. Since the Lippe elections he is likely to favor convening the Reichstag, forcing its dissolution, and carrying out a new election in the hope that the Lippe result may be indicative of proletarian sentiment throughout Germany.

Business is unsettled by the prospect. German bonds dropped in foreign markets, and stocks slipped badly on the Berlin Boerse. Von Schleicher is busy with his revival program, is having some success. But as Germans point out, most of the industrial gains so far have been accomplished without adding

Acme

"WE MUST STAND TOGETHER"—When Europe, at the Lausanne conference last summer, virtually ended reparations and war debts, both "sacredly contracted" at Versailles, little nations created or enlarged by the same treaty wondered what was in store for them. Czechoslovakia, Rumania, and Yugoslavia—tied by France into a Little Entente to stem German influence in the Balkans—got the jitters, sent their Foreign Ministers to Belgrade recently to create a permanent council to unify aims for the group. Front, left to right, Benes (Czechoslovakia), Titulescu (Rumania), Jeftitch (Yugoslavia).

many persons to the payrolls, and have been due to anticipated spring public works programs not yet actually under way. And—very significant — von Schleicher is having trouble within his cabinet. Farmers are forcing their representatives to demand more and larger quota restrictions on imports; industrialists insist that German industry can make no headway if foreign markets are closed to it, as they would be in retaliation to any further German import restrictions. So von Schleicher has his own problems which might eventually force a new election anyway.

It is this demand for extreme farm protection which brought to an end this week negotiations between German and Swedish trade delegates. Angry industrialists in the Ruhr say that Germany has probably lost her opportunity to build up her Scandinavian market, for it is known generally that the Scandinavians are all waiting for the opportunity to bargain with London for the share of the British market which is left free from empire embargoes.

The threatened application of the German super-tariff to certain Argentine products originally fixed for Jan. 1 was subsequently postponed until Jan. 10 in the hope that an agreement might be reached in the meantime with the Argentine government. Since this hope was not realized, a state of tariff war (though for the time being limited to certain products only) has become effective since Jan. 10. Fears are expressed in export circles that this will tend to strengthen further British and American influences on the Argentine.

Far East

The League takes up the problem of Manchuria. Washington votes to free the Philippines.

THE Far East was more greatly influenced by 2 developments at a distance than by anything at home. The first was the renewal at Geneva of discussions based on the Lytton report by the League of Nations on the Manchurian affair. Japan's attitude is still hostile to proposals by the League, which is more or less dominated in this discussion by the smaller members who demand strict interpretation of the regulations of the League.

The advance on Jehol has temporarily been stopped but Japanese troops are thought to be consolidating their positions on the borders of this state (map, page 24).

Meanwhile, at home, Japan has started a program to rationalize the steel industry which will include eventually the merging of all major iron and steel producing units within the empire. Control will be in the hands of private industry. The competitive ability of the Japanese will be increased (page 23).

The second major development is the passing of the Philippine freedom bill by the U. S. Senate over the veto of President Hoover. Reports from Manila indicate that the Islanders are wholly dissatisfied with the provisions in the bill and will never carry out their part of the provisions until it has been revised.

Latin America

National Association of Credit Men appraises credit and collection conditions in Latin America.

CREDIT and collection conditions in 21 Latin American countries at the end of the year are appraised by the Foreign Credit Interchange Bureau of the National Association of Credit Men this week, and the picture is not bright.

According to their study, only Mexico, Venezuela, and the Dominican Republic show improved credit conditions. In the case of Mexico, the improvement in the last quarter of 1932 is very pronounced.

Collections in the Argentine, Guatemala and Salvador are about the same as they were at the end of the third quarter. In the rest of Latin America they are less favorable.

The bureau grades the various countries in another way. Puerto Rico, Panama, Mexico, and the Argentine are listed as "prompt" payers of their commercial bills. Venezuela, Haiti, the Dominican Republic, Guatemala, Cuba, and Salvador are "fairly prompt." The other countries are "slow" or "very slow."

There are more reports from Venezuela that the venerable President Gomez has again announced plans for the construction of a new "free port" near Maracay which is to cost $10 millions and which is to be completed before December for the celebration of the 25th year of the Gomez control.

Mexico Would Stabilize Peso

In Mexico there is talk of plans to stabilize the peso. A conflict between the Peruvian and Colombian troops near the head of navigation on the Amazon seems imminent, with the possibility of involving Brazil and Ecuador before the conflict is settled.

A French plane flew the South Atlantic during the week, landed in Brazil and flew on later to Buenos Aires. The *Graf Zeppelin* "did" 10 round trips between Germany and Brazil last summer carrying passengers and mail. And Germans have completed plans to station a vessel in mid-Atlantic to refuel German planes on this crossing. Latin America is destined to have regular service with Europe soon.

The Figures of the Week

Construction activity perked up in January by the strength in public works alone. Miscellaneous consumers helped to push steel production to higher levels. Electric power output and carloadings made less than the expected increase, but the modest decline in check payments plus the gain in construction raised the general index of business.

JANUARY construction activity has been sharply boomed by the strength of public works awards, particularly in the New Orleans district where the federal government is assisting in the erection of a railroad bridge. With a volume of more than $30.5 millions in the first half of the month, awards have already surpassed the entire month of January, 1932, when public construction totaled some $24 millions. On a daily basis, the gain over a year ago reaches the staggering pre-depression figure of 189%. And comparison with the December rate yields a gratifying gain of 67%.

Residential and non-residential building still lags behind the preceding month and a year ago, not having the support which public projects are able to secure. The spread from January, 1932 is somewhat disconcerting as it shows no improvement from the course in 1932. Since residential activity fell 65.5% behind 1931, it might be expected that 1933 would show less of a gap from 1932. But the first 11 days of January uncovered less than $4.6 millions of contracts in the 37 states, whose daily rate lags 17% behind December and 62% behind January, 1932.

Non-residential structures, with a total volume of $8.2 millions, are averaging 23% below the December rate and 44% below a year ago. While this is somewhat better than the residential picture, it is still not encouraging when it is recalled that the year 1932 fell 57% below 1931.

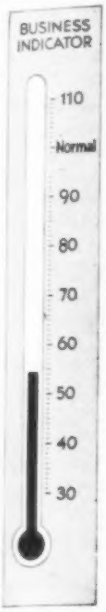
The favorable atmosphere given by the total of all construction is of course due to the public works group. Total awards of more than $43.3 millions showed a 26% gain over the December daily rate, and a 16% gain over January, 1932. The adjusted index for the 4-week period ending Jan. 6 rose to 23%, and the succeeding period to 26% of normal.

The moderate expansion of steel ingot operations is in line with seasonal expectations. It comes largely as a result of the appearance of numerous miscellaneous consumers who have re-entered the market a little earlier than expected. Orders from the larger automobile producers have not been as large as anticipated. Tin plate production is conspicuously active, with marked gains in the past week.

While ingot production has been stepped up to approximately 17% of capacity, the gain over the December average of 15% is rather small. The prospects for the rest of the month hang too heavily on the continued expansion of miscellaneous lines and automoible production. While all published reports of the public reception of new cars at the motor shows are favorable, it is too early to judge whether enthusiastic in-

THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	*Latest Week*	*Preceding Week*	*Year Ago*	*Five-Year Average (1928-1932)*
THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	*54.6	†52.9	64.7	
PRODUCTION				
Steel Ingot Operation (% of capacity)	17	16	26	60
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$3,103	$3,381	$5,225	$12,191
Bituminous Coal (daily average, 1,000 tons)	*1,156	1,160	1,155	1,666
Electric Power (millions K. W. H.)	1,495	1,461	1,619	1,684
TRADE				
Total Carloadings (daily average, 1,000 cars)	79	86	95	127
Miscellaneous and L. C. L. Carloadings (daily average, 1,000 cars)	50	54	61	79
Check Payments (outside N. Y. City, millions)	$2,851	$3,809	$3,545	$5,315
Money in Circulation (daily average, millions)	$5,613	$5,669	$5,680	$4,931
PRICES (*Average for the Week*)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.45	$.43	$.53	$.97
Cotton (middling, New York, lb.)	$.062	$.063	$.068	$.148
Iron and Steel (STEEL composite, ton)	$28.83	$28.83	$29.96	$33.77
Copper (electrolytic, f.o.b. refinery, lb.)	$.048	$.048	$.072	$.130
All Commodities (Fisher's Index, 1926=100)	57.3	57.4	65.2	85.7
FINANCE				
Total Federal Reserve Credit Outstanding (daily average, millions)	$2,127	$2,153	$1,855	$1,506
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$18,673	$18,713	$20,287	$21,880
Commercial Loans, Federal Reserve reporting member banks (millions)	$5,899	†$5,943	$7,371	$8,495
Security Loans, Federal Reserve reporting member banks (millions)	$4,237	†$4,271	$5,660	$7,067
Brokers' Loans, New York Federal Reserve reporting member banks (millions)	$381	$394	$563	$2,974
Stock Prices (average 100 stocks, Herald-Tribune)	$85.23	$85.67	$93.90	$145.20
Bond Prices (Dow, Jones, average 40 bonds)	$80.27	$79.73	$80.88	$93.43
Interest Rates—Call Loans (daily average, renewal)	1%	1%	2.5%	3.9%
Interest Rates—Prime Commercial Paper (4-6 months)	1¼-1½%	1¼-1½%	3¾-4%	4.2%
Business Failures (Dun, number)	726	596	781	714

*Preliminary †Revised



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures—steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.

terest will be translated into purchases justifying a substantial increase in automobile production. The concentration of attention on low-priced models cannot be looked upon with equanimity by the steel industry. Already the price structure on sheets, as well as other products such as wire, bars, and scrap, is breaking under pressure for business.

Steel activity is at wide variance in the different centers, ranging from a lowly 9% of capacity at Chicago, to 35% in the Wheeling district and 41% at Cleveland. The latter is aided by motor demand. Tin plate mills have stepped up production to around 50%, a rate that compares favorably with the early months of 1932. Ordinarily the spring months see an expansion of tin plate output, culminating with a peak about April.

Railroad buying continues negligible and consists of repair parts. *Steel* reports that there is not a single outstanding rail order in sight.

Farm implement makers are being stirred into activity in spite of the unsavory appearance of the mortgage and other debt situation in the farm country. Undoubtedly, there will be need to tread easily and with greater circumspection than in the past. Too much of the assets of the large implement manufacturers consists of receivables arising from past sales. This year there is likely to be an effort to secure a larger cash payment, more conservative trade-in appraisals, and cash for repair parts.

Structural steel awards have petered out since the first week of the year, possibly forecasting what may be expected when government funds are spread more thinly.

The Japanese invasion of the Philadelphia pig iron market in both December and January is a cause of grief to the domestic interests. Sales are made at a dollar a ton less than offered by local producers. The consolidation of Japanese steel interests (page 23) will further the advantages enjoyed by the foreign producers in addition to the very substantial advantage of depreciated currency. Purchases of steel scrap by Japan will probably decline.

The slight but steady gain in machine tool orders in the past 2 months which lifted December to the best level since June is an encouraging development.

The wide observance of Jan. 1 in the coal fields reduced the output for the week ended Jan. 7, but the daily average of bituminous output was almost equal to that of the preceding week, affected by Christmas.

Electric power production for the week Jan. 14 reveals but a poor recovery. The adjusted index dropped back to 66% of normal after an irregular spurt the preceding week. The central industrial region slipped 10% behind 1932; the country as a whole lags 6.7%.

Monthly data covering the consumption of power during November reflect the first decline from the preceding year in domestic power use. The more careful utilization of electricity in the home is now becoming apparent. The increasing use of electrical appliances has helped to bolster domestic consumption in the past few years. Commercial power consumption declined from October, but less than in the same period of 1931.

Carloading made less of a rebound following the Christmas week than had been expected, but the first week's return of 1933 is still affected by the holiday period. The adjusted index based on miscellaneous and less than carlot freight went to 50% of normal.

Steel companies are offering threats for reduced freight rates into the Detroit area from Pittsburgh, claiming that competition will force them to relocate their plants at Detroit unless reductions are offered. Ore transportation in 1932 was the most severely hit class of freight carried by the roads, declining 76% from 1931.

Following the exceptionally large increase in check payments covering the first of the year, only a modest decline occurred which was the main factor in lifting the adjusted index of check payments, and also the combined index.

A sudden recurrence of bank closings during the first 2 weeks of January is likely to be a disturbing feature and may interrupt the return flow of currency to the banks. Lack of suitable collateral upon which to borrow from the R.F.C. is now becoming a pressing problem.

The passage of the farm allotment bill by the House failed to have the desired effect upon the commodity markets. In fact, the exact reverse effect was achieved. Grain and cotton prices dwindled away util Jan. 17, when a slight recovery took place. But weakness characterized cocoa, coffee, silk, rubber, sugar, hides. The non-ferrous metal markets were comparatively steady with negligible demand. Tin was slightly irregular; zinc prices also eased. Consumption of cotton by American mills declined nearly 13% from the November peak, but exports rose.

The Financial Markets

Easy money policy of Federal Reserve Banks is being partially nullified by short-term financing policy of the Treasury. Gold notes being withdrawn from circulation. Bonds show recessions but secondary bonds are stronger. Rise in stocks is halted.

Money

"EASY money" continues to be the shibboleth of the Federal Reserve system and has its ramifications in the money market. Time money remains unchanged at ½% for 60- and 90-day periods and ¾% for longer ones. Federal funds are being loaned at ⅛%, while call money is ½% and private commercial paper is selling for 1¼% and 1½%. These are extraordinarily low prices for short-term money. Within recent weeks, $100,039,000 of 91-day Treasury bills have sold for 0.09% and another issue of $75,000,000 of 91-day bills was only at the rate of 0.20% per annum. A new issue by the Treasury of $80 millions to retire a maturing obligation of $80,295,000 is being placed on the market and is expected to be not far from the figures of recent issues.

New York State offered $50 millions 1-year notes at par bearing only 1% interest per annum and received subscriptions 4 times the amount of the offering.

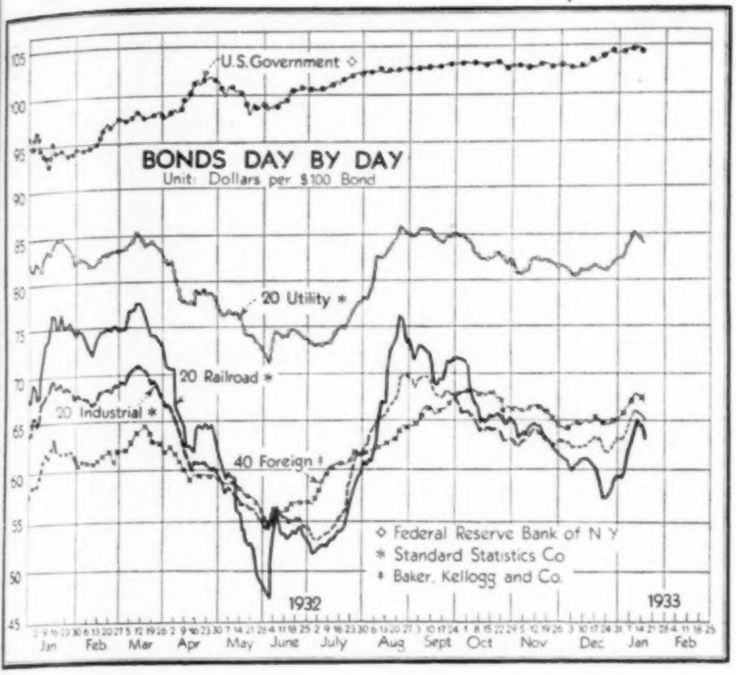
These exceedingly low interest rates for short-term paper for the more immediate maturities indicate that the banks and other financial institutions and individuals have ample funds available for investment which they are not disposed, at this time, to trust on long-term. Thus, the money market shows a great deal of money available for short-term investments and a dearth of available short-term paper. The Federal Reserve Banks have done what they could to make this paper scarce. Out of their total holdings of $1.8 billions, over $1.1 billions are in certificates and bills and over $300 millions in Treasury notes, which means that 77% of their huge holdings is in short-term paper. The Federal Reserve banks, therefore, have created this scarcity of short-term paper in face of an abundance of available money to be invested in it.

Low rates for short-term investments exert a constant pressure for the transfer of funds from the short-term market to the long-term market and, from that standpoint, the policy has much to commend itself, even though it has thus far met with only mild success. Certain dangers, of course, are always inherent in the exertion of such artificial pressure. It must not be thought that, because these short maturities of the U. S. government, of New York State, and of New York City are selling at so low an interest rate, the credits of these governmental units are necessarily in a satisfactory state. The policy simply encourages them to substitute short-term financing for long-term.

The policy of the Treasury and of the other governmental bodies partially tends to nullify the efforts of the Federal Reserve banks, to make short-term money more scarce. The refinancing of $80 millions of 1-year certificates which is to take place in January is a case in point. It supplies a new volume of short-term funds which is eagerly taken by the banks wishing to remain liquid. In order to exert effective pressure on the short-term market there should be more assistance from other governmental units, and especially from the Treasury. As the situation is today we have one unit, the Federal Reserve banks, absorbing the short-term paper and making it scarce, and another, the Treasury, adding to the volume and making it available.

The possibility that the Federal Reserve Banks are quietly preparing for further inflation and issuance of Federal Reserve notes is suggested by the continuing policy of retiring gold certificates from circulation. Whenever anyone pays or deposits at a local bank with a gold certificate that certificate is added to its gold reserve. Between Dec. 30, 1931, and Dec. 11, 1932, the volume of gold certificates in circulation fell $436 millions, from $1,037 millions to $601 millions.

The withdrawal of gold certificates from circulation enables the Reserve System to use the released gold as backing for Federal Reserve notes. Under the present law each dollar of gold certificates withdrawn from circulation



permits the issuance of $2.50 of Federal Reserve notes. Therefore, the pressure for the withdrawal of gold certificates might be looked upon as a precautionary measure preparatory to the issuance of additional Federal Reserve notes if anything develops from the inflation talk that is now rampant in Washington, Wall Street, and the rural areas.

Bonds

THE upward sweep of the bond market, which began at Christmas and continued steadily during the first 2 weeks in January, has received a check and all bonds have made slight recessions. But these recessions are unimportant when compared to the continued advance that has taken place.

It must be remembered that the upswing came in the absence of any inspiring news from the business world. It was carried upward of its own momentum. There has been nothing to change the fundamental situation. The average level of 40 bonds is higher than at any time since the first week in October.

What is significant is that second-grade bonds have begun to move up. It seems curious that the stock market should have advanced before the second-grade bonds, which are selling at very low prices, started to show signs of recovery. Obviously, before stocks can pay dividends, second-grade bonds must become good.

The continued upward drift of the second-grade bonds accompanied by a slight downward trend in high-grade issues may be interpreted as a movement of funds from the one class to the other. That in itself is helpful. The importance of strengthening the bond market as an aid to industrial activity cannot be overstated. Before we can expect private construction on a large scale to become operative it will be necessary to find a market for securities to pay for new construction. That market is mainly dependent upon confidence.

Stocks

THE rise in stocks which marked the beginning of the year has been reversed. However, stocks are still higher than they were at the start of the rise and higher than at any time since last November. The rise probably was the result of the easy money situation and of confidence in stocks because of the upturn in some of the commodity prices, especially wheat and cotton. And this upturn has now been checked.

The annual motor show in New York City usually brings an advance in motor stocks and there is a superstition in Wall Street that an advance in motor stocks presages an advance in the general market. Though it is doubtful whether there are any facts to support this theory, the market is now upset because the show failed it this year.

What is important to note is that the volume of sales, which did not increase perceptibly during the rise, has not decreased perceptibly during the decline. That is, the decline has not uncovered any great volume of liquidation.

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JANUARY 25, 1933

Those Slide-Rule Blues

A FREQUENT defect of the engineering mind, or so it seems to us, is its incorrigible tendency to put everything to the test of the slide-rule. If a thing cannot be worked out mathematically, why then it can't possibly be so.

Now, the Technocrats have been testing the price system—they really mean the profit system—with their slide-rules, and it doesn't come out right. Therefore it must collapse. They give it, in fact, eighteen months to last. Much of the consternation Technocracy has spread among business men, we suspect, has been due to this sensational prophecy, and the evidence offered in support of it.

The Technocrats point to the collapse of prices, the incredible mountain of debt, the paralysis of the normal daily business of the world. They contend, and rightly so, that the system will not stand five minutes' logical analysis. It is absurd, preposterous, fantastic. This seems to have broken upon many of their auditors as news, and so the shocked and stunned listeners are half ready to accept the rest of the pronouncement—that a system so easily proved fallacious must of course be on the verge of disintegration.

May we suggest that that conclusion doesn't necessarily follow? Lots of absurd, illogical and mathematically unsound institutions rise and thrive and endure in a world which happens to be peopled with queer, illogical, emotional human beings who are quite different from, but in their own way just as stubborn as, mathematical digits. They add, subtract, divide, and certainly they multiply, according to rules quite unknown to the slip-stick, or sometimes according to no discoverable rule at all.

All of which is not mere rhetoric. It is a way of saying that the Technocrats have not taken into account all the factors in the problem—and to omit important factors is not even good mathematics.

The price and profit system has been analyzed again and again by classic economists and always with devastating results. But these other analysts, not satisfied with demonstrating the mere truisms that profits and debts cannot pile up uninterruptedly forever, and that if there are profits withheld from producers, obviously the workers cannot buy all the goods they make, have gone on to discover how the system has endured so long.

The explanation is simple enough. The price and profit system works by a combination of continuous leakage and periodic breakdown. Bad debts, bankruptcies, obsolescence continuously, and business depressions periodically, redistribute the profits. One simple example: Investors in post-war European securities in effect gave the money to American workmen in wages to manufacture goods that Europe bought with the proceeds of the loans. The Europeans got the goods; the workmen got the money; it looks as if the investors' wealth has been effectively redistributed. Every little retail grocer who fails contributes something to the same process. Just now, the readjustment marches on the grand scale.

Appalling? Quite so. But, to quote Veblen at his own disciples, it is possible it is worth all it costs, for it is not easy to imagine any other incentive which would make men work so hard to develop the wealth of the world as has the reward of profits.

Perhaps some day we shall either develop a better system, or modify the impact of the most senseless and cruel features of this one. But that is not matter for these few remarks. Our only intention this time is to remind you that preposterous as it is, a price and profit system does work in its own stupid fashion, and has worked for a long, long time—surviving many a depression.

We doubt if any Technocrat now living will see its ultimate collapse.

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